

MARKET INSIGHTS

# Weekly Market Recap

U.S. | May 22, 2017

## The week in review

- Industrial production increased 0.98%
- Housing starts decreased to 1,172K SAAR

## The week ahead

- Flash Markit Mfg. PMI
- FOMC minutes
- 2nd revision of 1Q GDP

## Thought of the week

After years of underperformance amid falling commodity prices, depreciating currencies and uncertainty surrounding Chinese economic growth, investors are significantly underweight emerging market (EM) assets in global portfolios. However, with commodity prices stable and EM currencies supported, EM should also participate in the recent uptick in global growth, and investors should reflect on whether or not they have appropriate exposure to this EM rebound. Investing in EM can come in different forms, and various factors affect each asset class differently. Given the cyclical global environment, we prefer EM equities over EM local debt and U.S. dollar denominated EM debt (USD EMD). EM equities stand to benefit the most from improving economic growth as this should translate into improving earnings, and valuations are reasonable despite the rally that started in 2016. Within EM equities, we prefer cyclical sectors, which results in a regional bias in EM Asia given its higher exposure to such sectors. EM local debt is a bit more idiosyncratic in that we prefer “highflation” countries, such as Brazil and Russia, due to waning inflationary pressures translating into interest rate cuts from central banks. The case for USD EMD is more complicated, as spreads have compressed materially through the rally, and EM USD sovereigns carry moderate interest rate risk given their longer duration. After years of disappointment, we believe that the bottom for EM assets is behind us, and investors should now reconsider their limited exposure.

Please see important disclosure on next page.

### WEEKLY DATA CENTER

Equities	Level	Index Returns (%)				
		1 week	QTD	YTD	1 year	3-yr. Cum.
S&P 500	2382	-0.32	1.10	7.24	19.24	34.61
Dow Jones 30	20805	-0.32	1.10	6.35	22.41	35.88
Russell 2000	3398	-1.09	-1.21	1.23	26.69	27.99
Russell 1000 Growth	775.94	-0.33	2.88	12.04	21.55	40.72
Russell 1000 Value	690.71	-0.26	-0.81	2.43	17.28	26.35
MSCI EAFE	1883	1.02	5.96	13.79	20.03	7.25
MSCI EM	995.67	-0.63	4.18	16.14	30.84	4.37
NASDAQ	6084	-0.55	3.10	13.54	30.64	52.83

Fixed Income	Yield	Levels (%)				
		1 week	QTD	YTD	1 year	3-yr. Cum.
U.S. Aggregate	2.50	0.48	1.22	2.05	1.44	7.91
U.S. Corporates	3.20	0.60	1.82	3.07	4.25	11.09
Municipals (10yr)	2.18	0.58	1.97	3.79	0.69	10.70
High Yield	6.03	0.25	1.61	4.35	14.46	14.73

Key Rates	Levels (%)					
	5/19/17	5/12/17	3/31/17	12/30/16	5/19/16	5/19/14
2-yr U.S. Treasuries	1.28	1.29	1.27	1.20	0.89	0.36
10-yr U.S. Treasuries	2.23	2.33	2.40	2.45	1.85	2.54
30-yr U.S. Treasuries	2.90	2.98	3.02	3.06	2.64	3.39
10-yr German Bund	0.37	0.39	0.33	0.20	0.17	1.34
3-mo. LIBOR	1.19	1.18	1.15	1.00	0.65	0.23
3-mo. EURIBOR	-0.33	-0.33	-0.33	-0.32	-0.26	0.32
6-mo. CD rate	0.39	0.38	0.38	0.34	0.33	0.36
30-yr fixed mortgage	4.23	4.23	4.34	4.39	3.82	4.33
Prime Rate	4.00	4.00	4.00	3.75	3.50	3.25

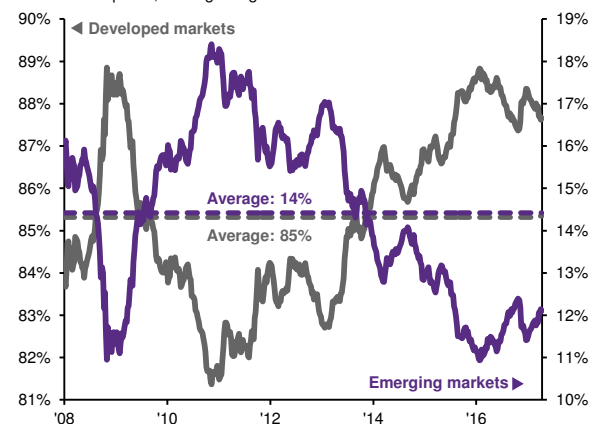
Index Characteristics			
NTM P/E	P/B	Div. Yld.	Mkt. Cap (bn)
17.37	3.00	2.03	43.97
16.50	3.56	2.30	N/A
23.45	2.11	1.51	1.20
19.69	5.68	1.60	22.87
15.75	1.99	2.65	27.73
14.98	1.63	3.03	19.88
12.08	1.56	2.42	13.31
22.27	3.74	1.07	4.14

Currencies	Levels		
	5/19/17	12/30/16	5/19/16
\$ per €	1.12	1.05	1.12
\$ per £	1.30	1.24	1.46
¥ per \$	111.54	116.64	109.93

Commodities	Levels		
	5/19/17	12/30/16	5/19/16
Oil (WTI)	50.33	53.75	48.16
Gasoline	2.37	2.31	2.24
Natural Gas	2.59	3.71	1.82
Gold	1252	1146	1246
Silver	16.77	16.24	16.60
Copper	5596	5501	4596
Corn	3.48	3.33	3.78
BBG Idx	171.73	176.94	170.84

### CHART OF THE WEEK

**Investors remain underweight EM assets**  
Bonds and equities, % weight in global funds\*

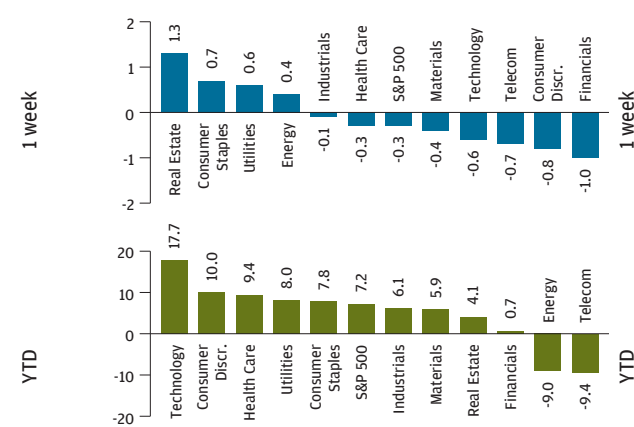


### STYLE RETURNS

	V	B	G
L	-0.3	-0.3	-0.3
M	-0.1	0.1	0.2
S	-1.1	-1.1	-1.1

	V	B	G
L	2.4	7.2	12.0
M	2.9	5.8	9.6
S	-2.7	1.2	5.6

### S&P 500 SECTOR RETURNS



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*Chart of the Week:* Source: IIF, J.P. Morgan Asset Management. \*Data includes mutual funds and ETFs and comes from the IIF's Portfolio Allocation Trends April 2017 report.

*Thought of the week:* Source: IIF, J.P. Morgan Asset Management.

Abbreviations: Cons. Sent.: University of Michigan Consumer Sentiment Index; CPI: Consumer Price Index; EIA: Energy Information Agency; FHFA HPI: - Federal Housing Finance Authority House Price Index; FOMC: Federal Open Market Committee; GDP: gross domestic product; HPI: Home Price Index; HMI: Housing Market Index; ISM Mfg. Index: Institute for Supply Management Manufacturing Index; PCE: Personal consumption expenditures; Philly Fed Survey: Philadelphia Fed Business Outlook Survey; PMI: Purchasing Managers' Manufacturing Index; PPI: Producer Price Index; SAAR: Seasonally Adjusted Annual Rate

Equity Price Levels and Returns: All returns represent total return for stated period. Index: S&P 500; provided by: Standard & Poor's. Index: Dow Jones Industrial 30 (The Dow Jones is a price-weighted index composing of 30 widely-traded blue chip stocks.) ; provided by: S&P Dow Jones Indices LLC. Index: Russell 2000; provided by: Russell Investments. Index: Russell 1000 Growth; provided by: Russell Investments. Index: Russell 1000 Value; provided by: Russell Investments. Index: MSCI - EAFE; provided by: MSCI - gross official pricing. Index: MSCI - EM; provided by: MSCI - gross official pricing. Index: Nasdaq Composite; provided by: NASDAQ OMX Group.

MSCI EAFE is a Morgan Stanley Capital International Index that is designed to measure the performance of the developed stock markets of Europe, Australasia, and the Far East.

Bond Returns: All returns represent total return. Index: Barclays US Aggregate; provided by: Barclays Capital. Index: Barclays Investment Grade Credit; provided by: Barclays Capital. Index: Barclays Municipal Bond 10 Yr; provided by: Barclays Capital. Index: Barclays Capital High Yield Index; provided by: Barclays Capital.

Key Interest Rates: 2 Year Treasury, FactSet; 10 Year Treasury, FactSet; 30 Year Treasury, FactSet; 10 Year German Bund, FactSet. 3 Month LIBOR, British Bankers' Association; 3 Month EURIBOR, European Banking Federation; 6 Month CD, Federal Reserve; 30 Year Mortgage, Mortgage Bankers Association (MBA); Prime Rate: Federal Reserve.

Commodities: Gold, FactSet; Crude Oil (WTI), FactSet; Gasoline, FactSet; Natural Gas, FactSet; Silver, FactSet; Copper, FactSet; Corn, FactSet. Bloomberg Commodity Index (BBG Idx), Bloomberg Finance L.P.

Currency: Dollar per Pound, FactSet; Dollar per Euro, FactSet; Yen per Dollar, FactSet.

S&P Index Characteristics: Dividend yield provided by FactSet Pricing database. Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet's Pricing database as provided by Standard & Poor's.

MSCI Index Characteristics: Dividend yield provided by FactSet Pricing database. Fwd. P/E is a bottom-up weighted harmonic average for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from MSCI and Price information from FactSet's Pricing database as provided by MSCI.

Russell 1000 Value Index, Russell 1000 Growth Index, and Russell 2000 Index Characteristics: Trailing P/E is provided directly by Russell. Fwd. P/E is a bottom-up weighted harmonic average using First Call Mean estimates for the "Next 12 Months" (NTM) period. Market cap is a bottom-up weighted average based on share information from Compustat and price information from FactSet's Pricing database as provided by Russell.

Sector Returns: Sectors are based on the GICS methodology. Return data are calculated by FactSet using constituents and weights as provided by Standard & Poor's. Returns are cumulative total return for stated period, including reinvestment of dividends.

Style Returns: Style box returns based on Russell Indexes with the exception of the Large-Cap Blend box, which reflects the S&P 500 index. All values are cumulative total return for stated period including the reinvestment of dividends. The Index used from L to R, top to bottom are: Russell 1000 Value Index (Measures the performance of those Russell 1000 companies with lower price-to-book ratios and lower forecasted growth values), S&P 500 Index (Index represents the 500 Large Cap portion of the stock market, and is comprised of 500 stocks as selected by the S&P Index Committee), Russell 1000 Growth Index (Measures the performance of those Russell 1000 companies with higher price-to-book ratios and higher forecasted growth values), Russell Mid Cap Value Index (Measures the performance of those Russell Mid Cap companies with lower price-to-book ratios and lower forecasted growth values), Russell Mid Cap Index (The Russell Midcap Index includes the smallest 800 securities in the Russell 1000), Russell Mid Cap Growth Index (Measures the performance of those Russell Mid Cap companies with higher price-to-book ratios and higher forecasted growth values), Russell 2000 Value Index (Measures the performance of those Russell 2000 companies with lower price-to-book ratios and lower forecasted growth values), Russell 2000 Index (The Russell 2000 includes the smallest 2000 securities in the Russell 3000), Russell 2000 Growth Index (Measures the performance of those Russell 2000 companies with higher price-to-book ratios and higher forecasted growth values).

**Past performance does not guarantee future results.**

**Diversification does not guarantee investment returns and does not eliminate the risk of loss.**

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Unless otherwise stated, all data is as of May 22, 2017 or as of most recently available.