

MARKET INSIGHTS

Weekly Market Recap

U.S. | September 24, 2018

The week in review

- NY/Philly Fed. Mfg. surveys at 19.0/22.9
- Housing starts at 1.282M
- Existing home sales at 5.34M

The week ahead

- FOMC Meeting
- 2nd quarter GDP (final est.)
- Consumer confidence & sentiment
- Durable goods
- New home sales
- Consumer spending & PCE

Thought of the week

The repatriation of overseas corporate cash was a key objective of 2017's tax reform. To do this, companies had to declare their overseas assets ("deemed repatriation") and pay taxes on them; once this was done, these assets could be moved home or left abroad. Data released last week showed that U.S. companies repatriated roughly \$130bn in the second quarter, bringing the year-to-date total to \$384bn*. While this represents a small portion of the more than \$2.1tn in profits held overseas, the key issue for investors is how these funds are being used. So far, things look similar to the repatriation tax holiday in 2005: most repatriated cash has driven a large increase in share buybacks. That said, mergers and acquisitions (M&A) have been strong in 2018, but dividend growth has lagged and net debt levels continue to rise. Importantly, while capital expenditures have only risen modestly according to the national accounts data, S&P 500 companies have seen a 22.4% increase in the level of capex from a year ago, with full expensing, higher oil prices and the need for better technology driving this uptick in investment. How companies use profits going forward will be essential for investors to consider, as those companies that focus on investment spending rather than financial engineering stand to reap the gains of higher productivity down the road.

WEEKLY DATA CENTER

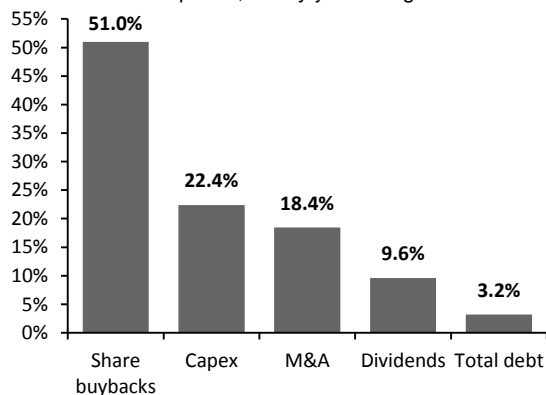
Equities	Level	Index Returns (%)				
		1 week	QTD	YTD	1 year	3-yr. Cum.
S&P 500	2930	0.86	8.26	11.13	19.44	58.46
Dow Jones 30	26744	2.25	10.81	10.01	22.32	74.40
Russell 2000	4256	-0.53	4.47	12.48	20.07	53.76
Russell 1000 Growth	1030	-0.06	8.46	16.33	26.41	67.93
Russell 1000 Value	783.72	1.44	7.49	5.67	12.27	46.28
MSCI EAFE	1995	2.91	2.28	-0.14	4.58	29.36
MSCI EM	1051	2.28	-0.70	-7.16	-2.53	39.71
NASDAQ	7987	-0.28	6.61	16.59	25.67	71.19

Fixed Income	Yield	Levels (%)				
		1 week	QTD	YTD	1 year	3-yr. Cum.
U.S. Aggregate	3.47	-0.26	-0.15	-1.76	-1.39	4.35
U.S. Corporates	4.08	-0.18	0.77	-2.53	-1.23	9.82
Municipals (10yr)	2.77	-0.34	-0.10	-0.82	-0.63	7.22
High Yield	6.49	0.07	2.23	2.39	3.17	23.01

Key Rates	Levels (%)					
	9/21/18	9/14/18	6/29/18	12/29/17	9/21/17	9/21/15
2-yr U.S. Treasuries	2.81	2.78	2.52	1.89	1.45	0.72
10-yr U.S. Treasuries	3.07	2.99	2.85	2.40	2.27	2.20
30-yr U.S. Treasuries	3.20	3.13	2.98	2.74	2.80	3.02
10-yr German Bund	0.46	0.44	0.30	0.43	0.45	0.68
3-mo. LIBOR	2.37	2.34	2.34	1.69	1.33	0.33
3-mo. EURIBOR	-0.32	-0.32	-0.32	-0.33	-0.33	-0.04
6-mo. CD rate	0.65	0.65	0.58	0.48	0.42	0.37
30-yr fixed mortgage	4.88	4.88	4.79	4.22	4.04	4.09
Prime Rate	5.00	5.00	5.00	4.50	4.25	3.25

CHART OF THE WEEK

Share buybacks have benefited from tax reform
S&P 500 uses of profits, YTD y/y % change



STYLE RETURNS

	V	B	G
L	1.4	0.9	-0.1
M	0.8	0.1	-0.9
S	0.2	-0.5	-1.3

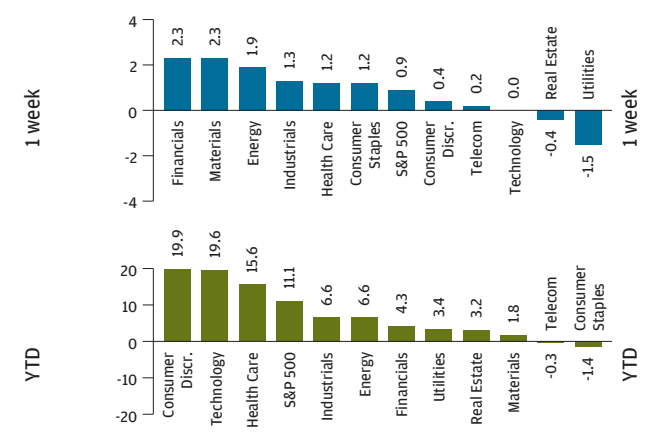
	V	B	G
L	5.7	11.1	16.3
M	4.8	8.6	13.5
S	8.8	12.5	16.0

Index Characteristics	Levels		
	NTM P/E	P/B	Div. Yld.
	16.88	3.38	1.73
	16.10	4.08	1.95
	22.20	2.14	1.17
	21.14	7.28	1.06
	14.34	2.12	2.29
	13.63	1.64	3.20
	11.26	1.63	2.62
	22.24	4.56	0.94

Currencies	Levels		
	9/21/18	12/29/17	9/21/17
\$ per €	1.18	1.20	1.19
\$ per £	1.31	1.35	1.35
¥ per \$	112.54	112.65	112.42

Commodities	Levels		
	9/21/18	12/29/17	9/21/17
Oil (WTI)	70.79	60.46	50.58
Gasoline	2.84	2.47	2.63
Natural Gas	3.02	3.69	3.11
Gold	1199	1291	1292
Silver	14.33	16.87	16.95
Copper	6203	7157	6408
Corn	2.98	3.19	3.18
BBG Idx	174.59	179.96	172.48

S&P 500 SECTOR RETURNS



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Chart of the Week: Source: Bloomberg, Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. Share repurchases, capital expenditures and dividends are aggregated from S&P 500 company cash flow statements through the second quarter and represent the year-to-date change. M&A is based on deals in the U.S. only and represents the year-to-date change. Total debt is aggregated from S&P 500 company balance sheets and includes both short-term and long-term debt through the second quarter.

Thought of the week: Source: Bloomberg, Compustat, FactSet, Standard & Poor's, J.P. Morgan Asset Management. *These numbers assume that companies need to reinvest \$40bn each quarter to keep operations up and running, and therefore, we deduct \$40bn from the numbers reported by the Bureau of Economic Analysis (BEA) in our analysis.

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).

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Unless otherwise stated, all data is as of September 24, 2018 or as of most recently available.

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