

MARKET INSIGHTS

Weekly Market Recap

U.S. | October 29, 2018

The week in review

- Flash PMI mfg at 55.9
- New home sales at 553k
- Durable goods orders rose 0.8% m/m
- Pending home sales rose 0.5% m/m
- Consumer sentiment at 98.6

The week ahead

- PCE/core PCE
- Consumer confidence
- Market PMI and ISM mfg
- Nonfarm payrolls

Thought of the week

The U.S. economy grew at +3.5% q/q saar in 3Q, decelerating from the +4.2% pace in 2Q. Despite this deceleration, GDP growth is still robust and came in slightly above estimates. This week's chart highlights the contributions to GDP growth last quarter. Consumer and government spending increased at a strong pace. Net exports, which contributed +1.2% in 2Q, detracted -1.8% in 3Q as exports decreased and imports increased, possibly in anticipation of higher tariffs. Fixed investment fell slightly, with non-residential fixed investment only growing modestly and residential investment continuing to decline, echoing weak housing data across several indicators. However, the most notable boost to economic growth this quarter was a surge in inventory growth, which increased by \$113 billion from -\$37 billion in 2Q to \$76 billion in 3Q, contributing 2.1 percentage points to the 3.5% rise in GDP. While strong inventory was a tailwind for 3Q, it is likely to be a drag in the future as the pace of stockpiling declines. Although 3Q GDP growth was healthy, we do expect a further slowdown ahead as inventory growth moderates and consumer spending grows more slowly due to higher oil prices and fading effects of the tax cuts.

WEEKLY DATA CENTER

| Equities | Level | Index Returns (%) | | | | |
|---------------------|--------|-------------------|--------|--------|--------|------------|
| | | 1 week | QTD | YTD | 1 year | 3-yr. Cum. |
| S&P 500 | 2659 | -3.93 | -8.67 | 0.98 | 5.85 | 36.53 |
| Dow Jones 30 | 24688 | -2.97 | -6.60 | 1.65 | 7.89 | 50.80 |
| Russell 2000 | 3688 | -3.76 | -12.50 | -2.42 | 0.35 | 33.38 |
| Russell 1000 Growth | 927.43 | -3.87 | -10.52 | 4.77 | 10.59 | 45.19 |
| Russell 1000 Value | 712.63 | -4.00 | -7.35 | -3.72 | 0.19 | 26.50 |
| MSCI EAFE | 1778 | -3.87 | -9.86 | -10.74 | -7.83 | 10.12 |
| MSCI EM | 939.55 | -3.27 | -10.27 | -16.90 | -12.83 | 17.38 |
| NASDAQ | 7167 | -3.78 | -10.90 | 4.67 | 10.46 | 47.33 |

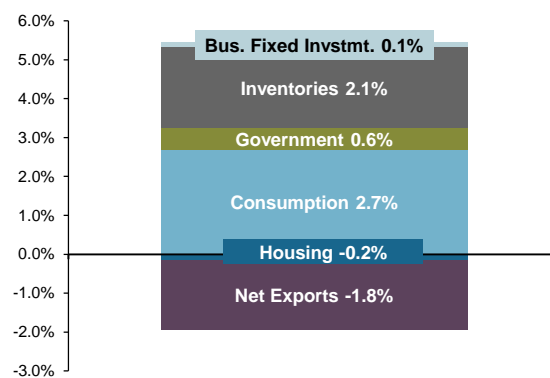
| Fixed Income | Yield | Levels (%) | | | | |
|-------------------|-------|------------|-------|-------|--------|------------|
| | | 1 week | QTD | YTD | 1 year | 3-yr. Cum. |
| U.S. Aggregate | 3.52 | 0.54 | -0.34 | -1.93 | -1.17 | 3.13 |
| U.S. Corporates | 4.20 | 0.32 | -0.89 | -3.20 | -1.97 | 7.45 |
| Municipals (10yr) | 2.86 | 0.27 | -0.38 | -1.04 | -0.66 | 5.89 |
| High Yield | 6.98 | -0.70 | -1.64 | 0.89 | 0.93 | 20.99 |

| Key Rates | Levels (%) | | | | | |
|-----------------------|------------|----------|---------|----------|----------|----------|
| | 10/26/18 | 10/19/18 | 9/28/18 | 12/29/17 | 10/26/17 | 10/26/15 |
| 2-yr U.S. Treasuries | 2.81 | 2.92 | 2.81 | 1.89 | 1.63 | 0.66 |
| 10-yr U.S. Treasuries | 3.08 | 3.20 | 3.05 | 2.40 | 2.46 | 2.07 |
| 30-yr U.S. Treasuries | 3.32 | 3.38 | 3.19 | 2.74 | 2.96 | 2.87 |
| 10-yr German Bund | 0.35 | 0.43 | 0.47 | 0.43 | 0.41 | 0.50 |
| 3-mo. LIBOR | 2.52 | 2.48 | 2.40 | 1.69 | 1.38 | 0.32 |
| 3-mo. EURIBOR | -0.32 | -0.32 | -0.32 | -0.33 | -0.33 | -0.06 |
| 6-mo. CD rate | 0.68 | 0.68 | 0.66 | 0.48 | 0.45 | 0.37 |
| 30-yr fixed mortgage | 5.11 | 5.11 | 4.96 | 4.22 | 4.18 | 3.98 |
| Prime Rate | 5.25 | 5.25 | 5.25 | 4.50 | 4.25 | 3.25 |

CHART OF THE WEEK

Inventories boost 3Q GDP growth

Contribution to real GDP growth by segment, q/q saar



3Q2018

STYLE RETURNS

| | V | B | G |
|---|------|------|------|
| L | -4.0 | -3.9 | -3.9 |
| M | -4.4 | -4.3 | -4.2 |
| S | -3.6 | -3.8 | -3.9 |

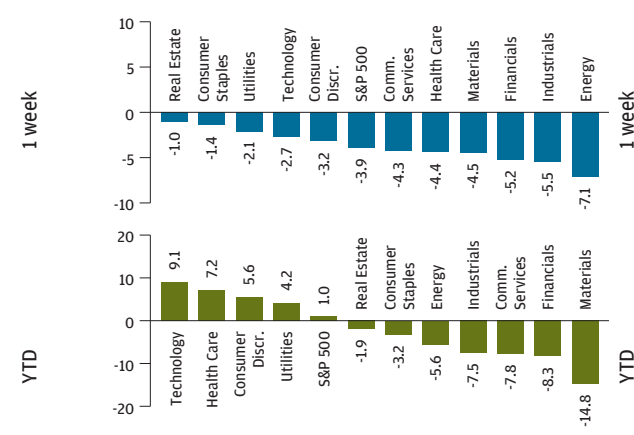
| | V | B | G |
|---|------|------|------|
| L | -3.7 | 1.0 | 4.8 |
| M | -6.3 | -4.1 | -1.4 |
| S | -4.1 | -2.4 | -0.9 |

| Index Characteristics | Levels | | |
|-----------------------|---------|------|-----------|
| | NTM P/E | P/B | Div. Yld. |
| | 15.18 | 3.14 | 1.93 |
| | 14.60 | 3.85 | 2.11 |
| | 19.20 | 1.90 | 1.35 |
| | 18.83 | 6.72 | 1.20 |
| | 12.90 | 1.98 | 2.55 |
| | 12.26 | 1.51 | 3.18 |
| | 10.06 | 1.48 | 2.70 |
| | 19.67 | 4.20 | 1.06 |

| Currencies | Levels | | |
|------------|----------|----------|----------|
| | 10/26/18 | 12/29/17 | 10/26/17 |
| \$ per € | 1.14 | 1.20 | 1.17 |
| \$ per £ | 1.28 | 1.35 | 1.32 |
| ¥ per \$ | 111.44 | 112.65 | 113.96 |

| Commodities | Levels | | |
|-------------|----------|----------|----------|
| | 10/26/18 | 12/29/17 | 10/26/17 |
| Oil (WTI) | 67.56 | 60.46 | 52.41 |
| Gasoline | 2.84 | 2.47 | 2.48 |
| Natural Gas | 3.16 | 3.69 | 2.91 |
| Gold | 1234 | 1291 | 1274 |
| Silver | 14.69 | 16.87 | 16.97 |
| Copper | 6159 | 7157 | 6965 |
| Corn | 3.17 | 3.19 | 3.18 |
| BBG Idx | 176.20 | 179.96 | 174.97 |

S&P 500 SECTOR RETURNS



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Chart of the Week: Source: BEA, FactSet, J.P. Morgan Asset Management.

Thought of the week: Source: BEA, FactSet, 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).

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Unless otherwise stated, all data is as of October 29, 2018 or as of most recently available.

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