

MARKET INSIGHTS

Weekly Market Recap

U.S. | June 19, 2017

The week in review

- Fed raises rates 25 bps
- PPI: headline +2.4 y/y, core +2.1% y/y
- CPI: headline +1.9% y/y, core +1.7 % y/y
- Retail sales down -0.3% m/m
- Jobless claims +237K
- Philly Fed down to 27.6, NY up to 19.8
- Industrial production flat m/m
- Housing starts down to 1.092M
- Consumer sentiment...

The week ahead

- New / existing home sales
- Jobless claims
- Flash composite PMI

Thought of the week

In a widely anticipated move, the FOMC raised interest rates by 25 basis points last week, the third consecutive change and fourth hike this cycle. The hike occurred despite some recent weakness in economic data, notably inflation, which missed estimates in May for the third month in a row. Nonetheless, the Committee considers this year's dip in inflation to be temporary, and believes it will return to its 2% target in 2018. In addition, as shown in this week's chart, excepting unemployment, the FOMC left long-term targets untouched, evidence of mounting confidence in the U.S. economy. In another sign of confidence, the Fed also outlined an explicit path of balance sheet reduction. In a "taper-up" strategy, it will reduce holdings of Treasuries and mortgage-backed securities by a combined \$10 billion per month in the first quarter of implementation, accelerating in quarterly increments until reaching \$50 billion in the fifth and subsequent quarters. It was not specified when implementation would begin, except to say that it would occur "this year," though Chair Yellen's press conference comments suggest a start as early as September. As both ends of the yield curve rise, fixed income investors will need a more flexible approach, diversifying across sectors and looking globally for opportunities.

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 | 2433 | 0.12 | 3.46 | 9.74 | 19.56 | 33.78 |
| Dow Jones 30 | 21384 | 0.59 | 4.12 | 9.52 | 23.69 | 37.42 |
| Russell 2000 | 3496 | -1.00 | 1.76 | 4.27 | 24.27 | 25.77 |
| Russell 1000 Growth | 791.31 | -0.09 | 5.06 | 14.42 | 21.40 | 39.66 |
| Russell 1000 Value | 706.64 | 0.33 | 1.67 | 4.99 | 17.84 | 25.67 |
| MSCI EAFE | 1893 | 0.03 | 6.82 | 14.71 | 24.57 | 5.92 |
| MSCI EM | 1003 | -1.41 | 5.20 | 17.28 | 28.73 | 3.87 |
| NASDAQ | 6152 | -0.88 | 4.33 | 14.89 | 28.46 | 47.54 |

| Fixed Income | Yield | Levels (%) | | | | |
|-------------------|-------|------------|------|------|--------|------------|
| | | 1 week | QTD | YTD | 1 year | 3-yr. Cum. |
| U.S. Aggregate | 2.47 | 0.26 | 1.86 | 2.69 | 0.61 | 8.61 |
| U.S. Corporates | 3.14 | 0.49 | 2.85 | 4.11 | 3.35 | 12.22 |
| Municipals (10yr) | 2.08 | 0.04 | 2.92 | 4.75 | 0.56 | 12.21 |
| High Yield | 5.98 | 0.10 | 2.26 | 5.02 | 13.82 | 14.47 |

| Key Rates | Levels (%) | | | | | |
|-----------------------|------------|--------|---------|----------|---------|---------|
| | 6/16/17 | 6/9/17 | 3/31/17 | 12/30/16 | 6/16/16 | 6/16/14 |
| 2-yr U.S. Treasuries | 1.32 | 1.35 | 1.27 | 1.20 | 0.70 | 0.49 |
| 10-yr U.S. Treasuries | 2.16 | 2.21 | 2.40 | 2.45 | 1.57 | 2.61 |
| 30-yr U.S. Treasuries | 2.78 | 2.86 | 3.02 | 3.06 | 2.39 | 3.40 |
| 10-yr German Bund | 0.27 | 0.26 | 0.33 | 0.20 | -0.03 | 1.35 |
| 3-mo. LIBOR | 1.27 | 1.24 | 1.15 | 1.00 | 0.65 | 0.23 |
| 3-mo. EURIBOR | -0.33 | -0.33 | -0.33 | -0.32 | -0.26 | 0.22 |
| 6-mo. CD rate | 0.41 | 0.40 | 0.38 | 0.34 | 0.33 | 0.36 |
| 30-yr fixed mortgage | 4.13 | 4.13 | 4.34 | 4.39 | 3.79 | 4.36 |
| Prime Rate | 4.25 | 4.00 | 4.00 | 3.75 | 3.50 | 3.25 |

CHART OF THE WEEK

The FOMC left most long-run targets unchanged
FOMC forecasts, June relative to March 2017

| FOMC June 2017 Forecasts | | | | |
|---------------------------------|------|------|------|----------|
| Percent | 2017 | 2018 | 2019 | Long Run |
| Change in real GDP, Q4 to Q4 | 2.2 | 2.1 | 1.9 | 1.8 |
| March Forecast | 2.1 | 2.1 | 1.9 | 1.8 |
| Unemployment Rate, Q4 | 4.3 | 4.2 | 4.2 | 4.6 |
| March Forecast | 4.5 | 4.5 | 4.5 | 4.7 |
| PCE Inflation, Q4 to Q4 | 1.6 | 2.0 | 2.0 | 2.0 |
| March Forecast | 1.9 | 2.0 | 2.0 | 2.0 |
| Federal Funds Rate, end of year | 1.4 | 2.1 | 2.9 | 3.0 |
| March Forecast | 1.4 | 2.1 | 3.0 | 3.0 |

STYLE RETURNS

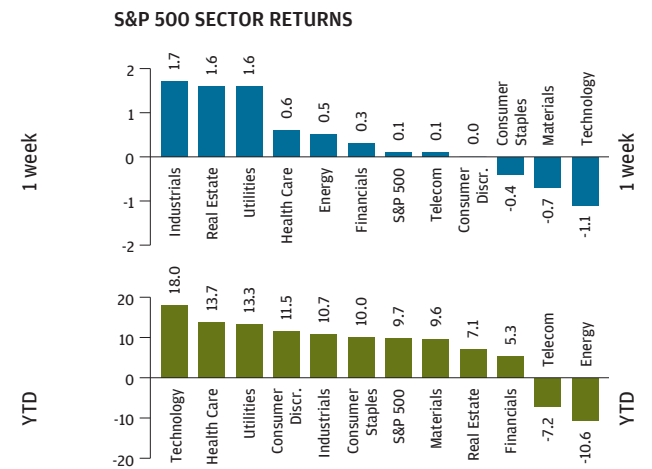
| | V | B | G |
|---|------|------|------|
| L | 0.3 | 0.1 | -0.1 |
| M | 0.3 | 0.3 | 0.2 |
| S | -1.2 | -1.0 | -0.8 |

| | V | B | G |
|---|-----|-----|------|
| L | 5.0 | 9.7 | 14.4 |
| M | 5.4 | 8.2 | 11.8 |
| S | 0.4 | 4.3 | 8.6 |

| Index Characteristics | | | |
|-----------------------|------|-----------|---------------|
| NTM P/E | P/B | Div. Yld. | Mkt. Cap (bn) |
| 17.61 | 3.02 | 1.99 | 44.98 |
| 16.88 | 3.59 | 2.24 | N/A |
| 23.84 | 2.12 | 1.51 | 1.24 |
| 19.91 | 5.71 | 1.60 | 23.24 |
| 15.95 | 2.00 | 2.65 | 28.34 |
| 14.94 | 1.63 | 3.03 | 19.99 |
| 12.27 | 1.57 | 2.39 | 13.33 |
| 22.24 | 3.74 | 1.06 | 4.18 |

| Currencies | Levels | | |
|------------|---------|----------|---------|
| | 6/16/17 | 12/30/16 | 6/16/16 |
| \$ per € | 1.12 | 1.05 | 1.11 |
| \$ per £ | 1.28 | 1.24 | 1.41 |
| ¥ per \$ | 110.68 | 116.64 | 103.94 |

| Commodities | Levels | | |
|-------------|---------|----------|---------|
| | 6/16/17 | 12/30/16 | 6/16/16 |
| Oil (WTI) | 44.74 | 53.75 | 46.14 |
| Gasoline | 2.37 | 2.31 | 2.37 |
| Natural Gas | 2.96 | 3.71 | 2.62 |
| Gold | 1255 | 1146 | 1311 |
| Silver | 16.76 | 16.24 | 17.71 |
| Copper | 5656 | 5501 | 4525 |
| Corn | 3.54 | 3.33 | 4.13 |
| BBG Idx | 164.87 | 176.94 | 176.03 |



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Chart of the Week: Source: Federal Reserve, J.P. Morgan Asset Management. June 2017 Forecasts are of 17 FOMC participants, and are median estimates.

Thought of the week: Source: Federal Reserve, 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 June 19, 2017 or as of most recently available.