Quarterly Market Commentary

Second Quarter 2017

Markets in Review

The US stock markets continued advancing in the 2nd quarter of 2017 as corporate earnings growth, consumer confidence, business confidence, the Fed and employment numbers all continued pushing the markets to new highs. For the quarter ending June 30, 2017, the S&P 500 was up 3.09%, the DJIA gained 3.95% and NASDAQ climbed 4.16%.

Year-to-date, the numbers were even better. The DJIA and the S&P 500 are neck-and-neck, both rising about 9.35% (the DJIA was actually up 9.34%) and NASDAQ was up an impressive 14.71%.

But the US Markets Did Not Lead the World

As impressive as US stock market returns were for investors, markets outside the US did even better, driven in part by a falling US dollar. Returns around the globe were positive in the second quarter, as emerging markets and international developed markets outpaced the US handily.

World Stock Market Returns (Local Currency)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	2Q 2017
Japan TOPIX 45.2%	MSCI EM 28.8%	MSCI Asia ex Japan 38.0%	UK FTSE 100 -28.3%	MSCI Asia ex Japan 67.2%	MSCI Asia ex Japan 15.6%	US S&P 500 2.1%	Japan TOPIX 20.9%	Japan TOPIX 54.4%	US S&P 500 13.7%	Japan TOPIX 12.1%	UK FTSE 100 19.1%	MSCI Asia ex Japan 19.9%	MSCI Asia ex Japan 8.8%
MSCI EM 35.8%	MSCI Asia ex Japan 28.6%	MSCI EM 33.6%	US S&P 500 -37.0%	MSCI EM 62.8%	US S&P 500 15.1%	UK FTSE 100 -2.2%	MSCI Europe ex UK 20.0%	US S&P 500 32.4%	Japan TOPIX 10.3%	MSCI Europe ex UK 9.1%	US S&P 500 12.0%	MSCI EM 15.0%	Japan TOPIX 6.8%
MSCI Europe ex UK 28.6%	MSCI Europe ex UK 22.5%	UK FTSE 100 7.4%	Japan TOPIX -40.6%	MSCI Europe ex UK 29.0%	MSCI EM 14.4%	MSCI Europe ex UK -12.1%	MSCI Asia ex Japan 19.7%	MSCI Europe ex UK 24.2%	MSCI Asia ex Japan 7.7%	US S&P 500 1.4%	MSCI EM 10.1%	MSCI Europe ex UK 10.0%	MSCI EM 6.7%
MSCI Asia ex Japan 24.1%	US S&P 500 15.8%	MSCI Europe ex UK 6.6%	MSCI Europe ex UK -42.7%	UK FTSE 100 27.3%	UK FTSE 100 12.6%	MSCI EM -12.5%	MSCI EM 17.4%	UK FTSE 100 18.7%	MSCI Europe ex UK 7.4%	UK FTSE 100 -1.3%	MSCI Asia ex Japan 6.4%	US S&P 500 9.3%	US S&P 500 3.1%
UK FTSE 100 20.8%	UK FTSE 100 14.4%	US S&P 500 5.5%	MSCI EM -45.7%	US S&P 500 26.5%	MSCI Europe ex UK 5.1%	MSCI Asia ex Japan -14.6%	US S&P 500 16.0%	MSCI Asia ex Japan 6.2%	MSCI EM 5.6%	MSCI Asia ex Japan -5.3%	MSCI Europe ex UK 3.2%	Japan TOPIX 7.4%	MSCI Europe ex UK 2.7%
US S&P 500 4.9%	Japan TOPIX 3.0%	Japan TOPIX -11.1%	MSCI Asia ex Japan -47.7%	Japan TOPIX 7.6%	Japan TOPIX 1.0%	Japan TOPIX -17.0%	UK FTSE 100 10.0%	MSCI EM 3.8%	UK FTSE 100 0.7%	MSCI EM -5.4%	Japan TOPIX 0.3%	UK FTSE 100 4.7%	UK FTSE 100 1.0%

Source: FactSet, MSCI, Standard & Poor's, TOPIX, J.P. Morgan Asset Management.
All indices are total return in local currency. Data as of 30 June 2017.

Asset Classes Were Consistent

The US markets rode the technology wave through most of 2017, taking a brief pause in early June. As such, it's not surprising that Growth stocks crushed Value stocks for the second quarter and so far this year. Commodities, on the other hand, had a tough second quarter and 2017, driven mostly by the drop in oil prices, which officially crossed into bear market territory earlier in June.

Asset Class & Style Returns (Local Currency)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	2Q 2017
MSCI EM 35.8%	REITS 34.4%	MSCI EM 33.6%	Global Agg 4.8%	MSCI EM 62.8%	REITS 27.6%	REITS 7.3%	REITS 20.1%	Small cap 35.8%	REITS 27.1%	Growth 6.5%	Value 15.1%	MSCI EM 15.0%	MSCI EM 6.7%
Small cap 23.3%	MSCI EM 28.8%	Cmdty 16.2%	Cmdty -35.6%	Small cap 40.8%	Small cap 24.4%	Global Agg 5.6%	Small cap 18.4%	Value 29.7%	Growth 11.5%	Small cap 2.8%	Small cap 14.5%	Growth 12.2%	Growth 4.1%
Cmdty 21.4%	Value 21.2%	Growth 10.5%	REITS -37.3%	Growth 29.4%	Cmdty 16.8%	Value -4.9%	MSCI EM 17.4%	DM Equities 29.6%	DM Equities 10.4%	DM Equities 2.6%	Cmdty 11.8%	DM Equities 8.6%	Small cap 3.1%
Value 16.7%	DM Equities 16.1%	Global Agg 9.5%	Value -37.7%	REITS 27.4%	MSCI EM 14.4%	DM Equities -5.0%	Growth 16.5%	Growth 29.5%	Value 9.2%	REITS 2.3%	MSCI EM 10.1%	Small cap 7.5%	DM Equities 2.9%
DM Equities 16.3%	Small cap 13.6%	DM Equities 5.2%	DM Equities -38.3%	DM Equities 26.5%	Growth 12.7%	Growth -5.1%	DM Equities 16.4%	MSCI EM 3.8%	Small cap 6.7%	Value -1.2%	DM Equities 9.6%	REITs 5.4%	Global Agg 2.6%
Growth 16.0%	Growth 11.2%	Value -0.0%	Growth -39.0%	Value 23.6%	DM Equities 10.6%	Small cap -8.7%	Value 16.3%	REITS 3.2%	MSCI EM 5.6%	Global Agg -3.2%	REITs 9.3%	Value 5.2%	REITS 2.4%
REITS 8.3%	Global Agg 6.6%	Small cap -3.8%	Small cap -40.4%	Cmdty 18.9%	Value 8.4%	MSCI EM -12.5%	Global Agg 4.3%	Global Agg -2.6%	Global Agg 0.6%	MSCI EM -5.4%	Growth 4.4%	Global Agg 4.4%	Value 1.7%
Global Agg -4.5%	Cmdty 2.1%	REITS -17.8%	MSCI EM -45.7%	Global Agg 6.9%	Global Agg 5.5%	Cmdty -13.3%	Cmdty -1.1%	Cmdty -9.5%	Cmdty -17.0%	Cmdty -24.7%	Global Agg 2.1%	Cmdty -5.3%	Cmdty -3.0%

Source: Barclays, Bloomberg, FactSet, MSCI, J.P. Morgan Asset Management. REITs: FTSE NAREIT All REITs; Cmdty: Bloomberg UBS Commodity Index; Global Agg: Barclays Global Aggregate; Growth: MSCI World Growth; Value: MSCI World Value; Small cap: MSC World Small Cap. All indices are total return in local currency. Data as of 30 June 2017.

The Fed Was Busy

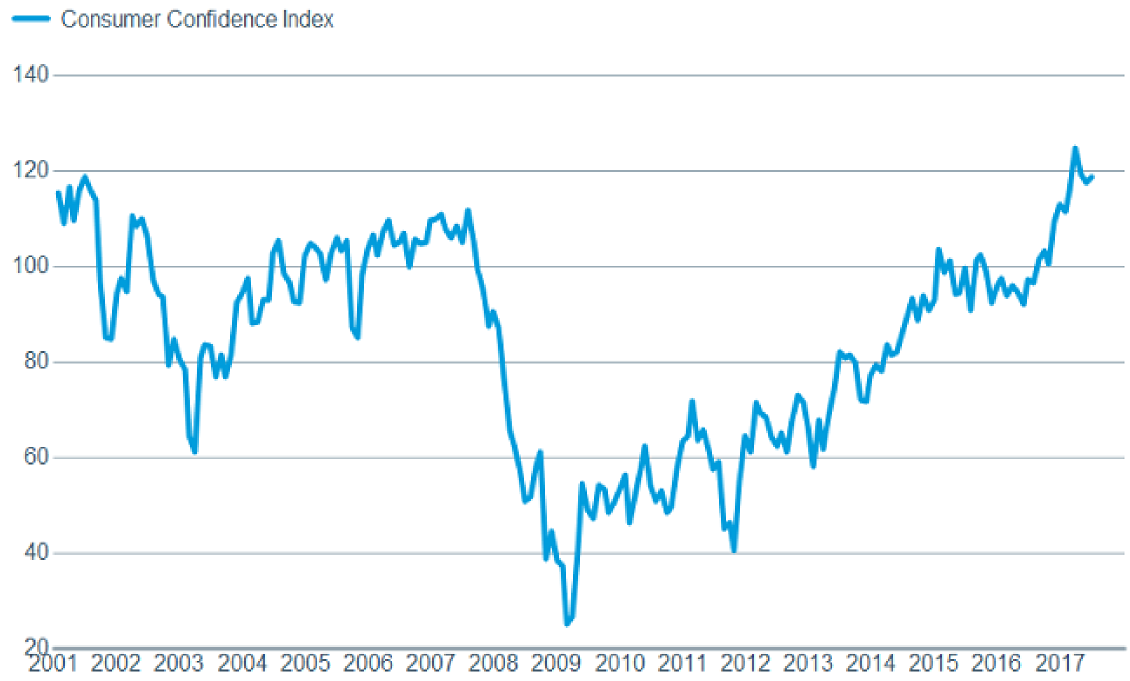
The Fed has raised short-term rates three times since the end of 2015 and expectations are that rate raising will continue in a measured way. Last week, the market digested the minutes from the recent Fed meeting, which outlined the next tool the Fed uses to manage economic growth – paring back its balance sheet. Besides the ability to raise/reduce short-term rates, the Fed has a $4.5 trillion balance sheet and they intend to reduce this amount over the next few years, which will also have the effect of allowing longer-term rates to rise gradually.

The minutes of the June Federal Open Market Committee meeting show that some of its members want to begin reducing the Fed's $4.5 trillion balance sheet as early as September.

Economic Data Supports Growth

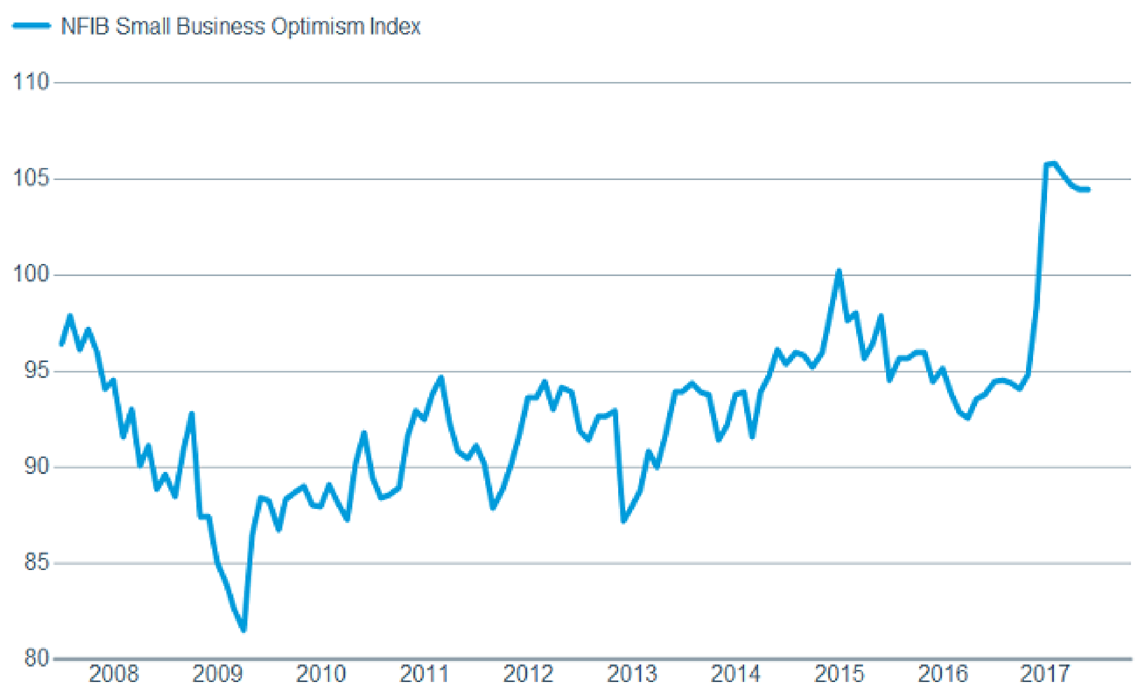
The economic data fully supports the bull market, by some accounts now entering its 8th year. Sure, there are political and social headlines dominating the news, but corporate earnings are strong, unemployment is low, interest rates are stable, inflation is tame and consumers are confident – all supporting reasons why the markets keep hitting new highs. Let's look at consumer and small business confidence – both of which remain very high.

Consumer confidence is high



Source: FactSet, Conference Board. As of July 3, 2017.

Small business confidence is high



Source: FactSet, Natl. Federation of Independent Business. As of July 3, 2017.

Employment – Not Too Hot, Not Too Cold

The US Bureau of Labor Statistics released the Employment Report for the month of June and showed that employment increased in health care, social assistance, financial activities, and mining. More specifically, the Report showed the addition of 222,000 nonfarm payrolls, which was significantly higher than estimates of about 173,000. The Report was largely seen as another “Goldilocks Report,” pointing to a job market that is sustaining a modestly-growing economy without much fear of inflation.

Those 222,000 new jobs added in June bring the 2017 monthly average to 180,000 – another positive indicator for the economy. It’s true that the unemployment rate inched up from a 16-year low to 4.4%, but only because more individuals are returning to the work force, which is a good thing.

June's Report also showed that wages are rising at a 2.5% rate, higher than the average of 2.0% from the 2010-2015 time-period. Finally, the Report showed upward revisions to April and May payrolls of another 47,000 jobs to the numbers reported earlier in the year.

So, What’s Next?

By most accounts, the environment for US and global stocks remains in good shape, especially with the next round of corporate earnings widely expected to be better across the board vs. the previous quarter. But as always, the possibility of a pullback exists, especially as this bull market is getting a bit long-in-the-tooth.