Weekly Market Recap

The week in review

- Flash mfg./srvs. PMI at 52.5/52.2
- Housing starts/permits: 1.365M/1.482M
- Job openings rose to 7,267M
- PCE/Core CPE up 1.5%/1.6% y/y
- Consumer sentiment at 99.3

The week ahead

- Durable goods orders
- New home sales
- Jobless claims

Thought of the week

One of the tenets of Keynesian economics is demand-pull inflation. That is, when consumer demand outpaces the available supply of consumer goods and services—a typical late-cycle dynamic—prices should rise. Therefore, investors often assume the opposite to be true and associate economic recessions with falling prices or deflation. However, as highlighted in this week’s chart, inflation measured on a year-over-year basis often tends to rise leading up to recessions, and subsequently peaks during recessions (this trend is still significant even recognizing how year-over-year readings lag monthly data). This dynamic can be explained by the typical business cycle sequence around recessions; first, manufacturing weakens, then employment and consumer spending and, lastly, inflation. It is also the case that the relationship between changes in interest rates and inflation is not immediate; the Fed typically overtightens interest rates in response to inflation momentum, causing the economy to slow before subsequently falling into recession. While our base case is for the economy to avoid recession next year, this lagging inflation dynamic suggests that economic growth and inflation will send mixed signals in 2020 as the economy grows more slowly and inflation continues to firm.
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Chart of the Week: Source: DOL, FactSet, J.P. Morgan Asset Management. Data are as of December 20, 2019.

Thought of the week: Source: DOL, FactSet, J.P. Morgan Asset Management. Data are as of December 20, 2019.


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 composed 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 (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 3000 Growth Index (Measures the performance of those Russell 3000 companies with higher price-to-book ratios and higher forecasted growth values), Russell Mid Cap Index (The Russell Midcap Index includes the smallest 800 securities in the Russell 3000), 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 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 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.