

MARKET INSIGHTS

Weekly Market Recap

U.S. | June 18, 2018

The week in review

- FOMC raised target rate: 1.75%-2.00%
- CPI/Core CPI: +2.8%/+2.2% y/y
- PPI/Core PPI: +3.1%/+2.6% y/y
- Retail sales up +0.8% m/m
- Industrial production down -0.1% m/m

The week ahead

- Housing starts
- Existing home sales
- Flash PMI composite

Thought of the week

Last week, the Federal Reserve raised its target rate to a range of 1.75%-2.00%. It also released updated economic projections, and notably increased the expected number of interest rate hikes from three to four this year and maintained its March estimate for three in 2019. With the potential for five more rate hikes by the end of 2019, investors have been asking: at what level does the fed funds rate imply tighter financial conditions, thereby weighing on future growth? The Chicago Fed publishes a Financial Conditions Index that measures risk, credit and leverage in the financial system relative to its own history; a reading greater (lower) than zero suggests tight (loose) conditions. Investors should consider a few things: first, core inflation for May was 2.2% year-over-year, which means the real fed funds rate is still negative. Second, as shown in this week's chart, historically, financial conditions have not been considered "tight" until the real fed funds rate reaches a level of around 2.5% or higher. And lastly, if the Fed stays course, the projected median rate will be 3.13% at the end of 2019, which (assuming inflation stays controlled) leaves the real rate at around 1%, well below previous tightening levels. Thus, while low rates have kept financial conditions loose for quite some time, and additional hikes may see financial conditions progress to more normal levels, we do not anticipate conditions are on the cusp of tightening in a way that is restrictive to economic growth.

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	2780	0.07	5.73	4.92	16.52	41.96
Dow Jones 30	25090	-0.84	4.68	2.62	20.17	51.98
Russell 2000	4185	0.72	10.35	10.26	20.94	39.25
Russell 1000 Growth	980.05	0.73	8.77	10.31	25.35	55.19
Russell 1000 Value	745.52	-0.64	2.79	-0.12	8.32	27.29
MSCI EAFE	2000	-0.48	1.03	-0.40	9.99	17.95
MSCI EM	1114	-1.85	-4.37	-2.97	13.91	24.38
NASDAQ	7746	1.34	9.94	12.78	26.97	59.44

Fixed Income	Yield	Levels (%)				
		1 week	QTD	YTD	1 year	3-yr. Cum.
U.S. Aggregate	3.33	0.13	-0.49	-1.94	-1.08	5.05
U.S. Corporates	4.00	0.15	-0.90	-3.20	-1.00	9.42
Municipals (10yr)	2.64	-0.06	0.69	-0.93	0.05	8.79
High Yield	6.45	0.45	1.61	0.73	3.09	17.78

Key Rates	Levels (%)					
	6/15/18	6/8/18	3/30/18	12/29/17	6/15/17	6/15/15
2-yr U.S. Treasuries	2.55	2.50	2.27	1.89	1.35	0.72
10-yr U.S. Treasuries	2.93	2.93	2.74	2.40	2.16	2.36
30-yr U.S. Treasuries	3.05	3.08	N/A	2.74	2.78	3.09
10-yr German Bund	0.40	0.45	0.49	0.43	0.28	0.82
3-mo. LIBOR	2.33	2.33	2.31	1.69	1.27	0.28
3-mo. EURIBOR	-0.32	-0.32	-0.33	-0.33	-0.33	-0.01
6-mo. CD rate	0.57	0.56	0.54	0.48	0.41	0.37
30-yr fixed mortgage	4.83	4.83	4.69	4.25	4.13	4.22
Prime Rate	5.00	4.75	4.75	4.50	4.25	3.25

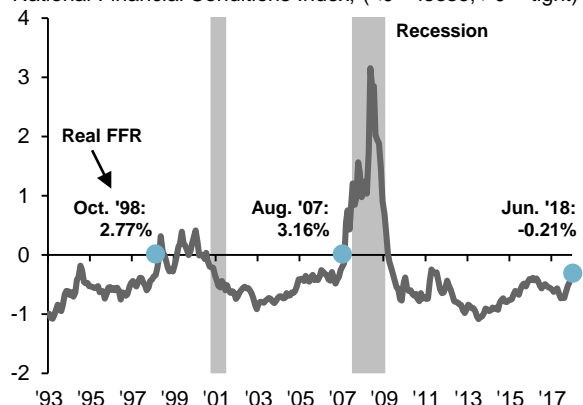
Index Characteristics	Levels			
	NTM P/E	P/B	Div. Yld.	Mkt. Cap (bn)
	16.57	3.26	1.90	50.76
	15.79	3.97	2.08	N/A
	23.43	2.18	N/A	1.43
	20.22	6.68	N/A	24.03
	13.97	2.02	N/A	35.32
	13.92	1.65	3.15	21.38
	11.69	1.71	2.44	15.40
	22.44	4.43	0.98	5.15

Currencies	Levels		
	6/15/18	12/29/17	6/15/17
\$ per €	1.16	1.20	1.12
\$ per £	1.33	1.35	1.28
¥ per \$	110.50	112.65	110.59

Commodities	Levels		
	6/15/18	12/29/17	6/15/17
Oil (WTI)	65.00	60.46	44.47
Gasoline	2.91	2.47	2.35
Natural Gas	2.98	3.69	2.94
Gold	1285	1291	1255
Silver	17.23	16.87	16.86
Copper	7136	7157	5637
Corn	3.34	3.19	3.50
BBG Idx	180.42	179.96	164.15

CHART OF THE WEEK

Financial conditions remain loose amid rate hikes
National Financial Conditions Index, (<0 = loose, >0 = tight)

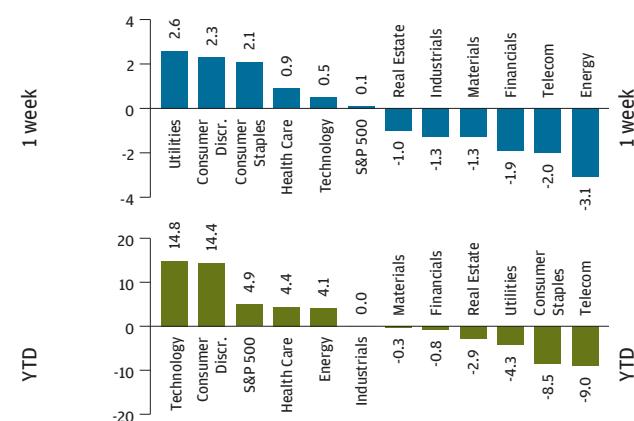


STYLE RETURNS

	V	B	G
L	-0.6	0.1	0.7
M	-0.3	0.2	0.9
S	-0.6	0.7	1.9

	V	B	G
L	-0.1	4.9	10.3
M	0.8	4.6	9.5
S	6.7	10.3	13.6

S&P 500 SECTOR RETURNS



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Chart of the Week: Source: Federal Reserve System, U.S. Conference Board, DOL, FactSet, J.P. Morgan Asset Management. Real Federal Funds rate is measured by the Federal Funds target yield minus U.S. core CPI inflation. Data are as of June 14, 2018.

Thought of the week: Source: Federal Reserve System, U.S. Conference Board, DOL, FactSet, J.P. Morgan Asset Management. Real Federal Funds rate is measured by the Federal Funds target yield minus U.S. core CPI inflation. Data are as of June 14, 2018.

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 18, 2018 or as of most recently available.