Market Review

1 December 2017

Review of the markets for November 2017

Markets took a short-lived pause at the beginning of November after a prolonged period of positive returns and low volatility. By the end of the month, sentiment was buoyed by further evidence of a solid macro backdrop.

Developed market equities closed the month 1.6% higher, with the year-to-date return still strong at +17.8%. Emerging markets lost 0.8% in November however the year-to-date return remains at an impressive 27.7%. Commodities posted a 0.5% loss for the month and are now down 1.2% year to date.

Exhibit 1: Asset class and style returns (local currency)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	Nov 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 27.7%	REITS 2.6%
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 23.2%	Growth 1.7%
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 17.8%	DM Equities 1.6%
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 17.6%	Small cap 1.6%
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%	Value 12.7%	Value 1.5%
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%	REITS 9.4%	Global Agg 1.1%
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 7.0%	Cmdty -0.5%
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 -1.2%	MSCI EM -0.8%

Source: Barclays, Bloomberg, FactSet, FTSE, 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: MSCI World Small Cap. All indices are total return in local currency. Data as of 30 November 2017.

Eurozone economic momentum accelerated. Preliminary third-quarter GDP growth was revised up to 2.5%, largely due to the German economy's impressive 2.8% growth, but also as a result of improving conditions in France and Italy, which confirmed that the recovery is being felt more evenly across countries. The manufacturing Purchasing Managers' Index (PMI) for the eurozone hit a new record high of 60.1, which is consistent with a growth rate of more than 3%. Labour dynamics improved, with the unemployment rate falling below 9% and consumer confidence reached a 16-year high. The flash estimate of November headline inflation picked up by 10 basis points to 1.5% but core inflation remained unchanged at 0.9%. Nevertheless, improving labour markets and rising private incomes are expected to feed through into higher inflation at some point down the line.

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The minutes of the European Central Bank's (ECB's) October meeting (when it announced an extension to its quantitative easing programme) revealed a high degree of conviction on the economic outlook, but not on wages and inflation, which are still subdued. Bond scarcity was not mentioned but probably played a role in the decision to halve asset purchases from January 2018. The dovish message of the ECB is consistent with expectations that new purchases under quantitative easing programme will be tapered further over the course of the year, and rates will be raised, in 2019.

November has seen a return of political uncertainty. In Germany the announcement of a new coalition still seems far away. In Italy the electoral campaign for next year's general election has revealed a fragmented picture and growing support for anti-establishment parties. In Spain the turmoil created by the referendum in Catalonia could also lead to new regional elections soon. This increased political noise was probably the key reason for the correction of the MSCI Europe (ex-UK) Index, which ended the month with a -1.7% return (although the benchmark is still up 15.1% year-to-date).

The UK budget revealed a slower pace of fiscal tightening to support the economy through the Brexit negotiations. Third-quarter GDP growth was confirmed at 1.5% and inflation remained unchanged at 3.0%. The Bank of England announced the first rate rise in a decade. The market anticipates roughly two more rises over the next three years to control inflation. Signs of progress in the EU Brexit negotiations supported the pound in the final days of the month. The FTSE 100 closed with decline of 1.8%, marginally reducing the year-to-date return to +6.6%.

Exhibit 2: World stock market returns (local currency)

2005	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016	YTD	Nov 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 33.0%	US S&P 500 3.1%
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 27.7%	Japan TOPIX 1.5%
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%	US S&P 500 20.5%	MSCI Asia ex Japan -0.2%
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%	Japan TOPIX 20.3%	MSCI EM -0.8%
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%	MSCI Europe ex UK 15.1%	MSCI Europe ex UK -1.7%
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 6.6%	UK FTSE 100 -1.8%

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

The US macro picture was mixed but the economic cycle appears solid. New orders for durable goods fell mainly due to weakness in the aircraft and defence sectors. Initial jobless claims were volatile during the month, but the unemployment rate fell to 4.1%. Manufacturing production rebounded and the flash manufacturing PMI cooled to 53.8 (from 54.6) but remained well above 50. Headline inflation fell to 2.0%, confirming that the higher level seen in September was due to the effects of the hurricanes on energy prices. However, core inflation increased by 10 basis points to 1.8%, suggesting that conditions remained in place for inflation to gradually pick up.

The minutes of the last Federal Open Market Committee meeting reinforced expectations for a rate rise in December. Inflation remains the key statistic to monitor for predicting monetary moves in 2018. The nomination of Jerome Powell as the new chairman of the Federal Reserve could have created some uncertainty, but was seen as the choice for continuity.

The timetable for tax reform in the US is still uncertain, so progress could serve to support appetite for US equities. The S&P 500 Index gained 3.1% in November revising up the year-to-date return to 20.5%.

Exhibit 3: Fixed income sector returns (local currency)

2010	2011	2012	2013	2014	2015	2016	YTD	Nov 2017
US HY 15.1%	IL 10.2%	Euro HY 23.3%	Euro HY 8.8%	Euro Treas. 13.1%	EM Debt 1.8%	US HY 17.5%	Global IG 8.2%	IL 1.7%
Euro HY 14.3%	US Treas. 9.8%	EM Debt 18.0%	US HY 7.4%	EM Debt 6.2%	Euro Treas. 1.6%	Euro HY 10.1%	EM Debt 7.6%	Global IG 0.6%
EM Debt 11.8%	EM Debt 9.2%	US HY 15.5%	Euro Treas. 2.2%	Euro HY 5.5%	US Treas. 0.8%	EM Debt 9.6%	IL 7.4%	Euro Treas. 0.3%
US Treas. 5.9%	US HY 4.4%	Global IG 11.2%	Global IG 0.3%	US Treas. 5.1%	Euro HY 0.5%	Global IG 4.3%	US HY 7.2%	US Treas. -0.1%
Global IG 5.8%	Global IG 4.3%	Euro Treas. 11.0%	US Treas. -2.7%	IL 3.4%	Global IG -3.6%	IL 3.9%	Euro HY 6.2%	US HY -0.3%
IL 3.0%	Euro Treas. 3.4%	IL 8.5%	IL -3.2%	Global IG 3.1%	US HY -4.6%	Euro Treas. 3.2%	US Treas. 2.0%	Euro HY -0.5%
Euro Treas. 1.1%	Euro HY -1.1%	US Treas. 2.0%	EM Debt -8.3%	US HY 2.5%	IL -5.0%	US Treas. 1.0%	Euro Treas. 1.0%	EM Debt -0.8%

Source: Barclays, BofA/Merrill Lynch, FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. IL: Barclays Global Inflation-Linked; Euro Treas: Barclays Euro Aggregate Government - Treasury; US Treas: Barclays US Aggregate Government - Treasury; Global IG: Barclays Global Aggregate - Corporates; US HY: BofA/Merrill Lynch US HY Constrained; Euro HY: BofA/Merrill Lynch Euro Non-Financial HY Constrained; EM Debt: J.P. Morgan EMBI+. All indices are total return in local currency. Data as of 30 November 2017.

In Japan, third-quarter GDP growth was revised down to a still elevated 1.4%. Exports and imports remained strong, while positive sentiment surveys and improving labour markets are increasing expectations for a rebound in consumption and inflation. The monthly return for the TOPIX Index (+1.5%) confirmed the appeal of the Japanese market this year, which is up 20.3% year to date.

In China, the authorities are trying to promote better quality growth without hurting the economy. The announcement of new credit tightening regulations has created some concern given initial signs of deceleration are already underway. Sectors such as infrastructure and housing could be hurt by credit restrictions, which may lead to softer GDP growth in the fourth quarter after the still solid 6.8% pace of the third quarter.

Despite Chinese uncertainty, the macro outlook for emerging markets appears resilient. Moody’s upgraded India’s sovereign rating thanks to its strong commitment to reforms and its strong GDP growth. Growth in Hong Kong and Taiwan rose in the third quarter, and exports accelerated.

The global third-quarter corporate earnings season ended with positive earnings growth. Earnings estimates for 2017 and 2018 remained stable, with emerging markets benefiting from a significant upgrade. The positive global macro picture and positive earnings momentum may continue to feed into an improving risk appetite.

The price of oil continued to increase thanks to a more balanced demand-supply outlook after production cuts by OPEC and non-OPEC producers started to work, with inventory levels also declining and global demand appearing to be growing.

Low inflation globally, and accommodative forward guidance from central banks, contributed to the positive returns in many fixed income markets, while the pause in some high yield and emerging bond markets may still offer opportunities for fixed income investors.

Exhibit 4: Fixed income government bond returns (local currency)

2010	2011	2012	2013	2014	2015	2016	YTD	Nov 2017
UK 7.5%	UK 16.8%	Italy 21.3%	Spain 11.3%	Spain 17.0%	Italy 4.9%	UK 10.7%	Italy 2.5%	Italy 0.6%
Germany 6.4%	US 9.9%	Spain 6.0%	Italy 7.4%	Italy 15.7%	Spain 1.7%	Spain 4.2%	US 2.1%	Japan 0.3%
US 6.1%	Germany 9.8%	Germany 4.5%	Japan 2.2%	UK 14.1%	Global 1.3%	Germany 4.1%	Spain 1.6%	UK 0.3%
Global 4.2%	Spain 6.6%	Global 4.1%	Global -0.4%	Germany 10.5%	Japan 1.3%	Japan 3.6%	Global 1.3%	Global 0.2%
Japan 2.5%	Global 6.3%	UK 2.6%	Germany -2.3%	Global 8.5%	UK 1.2%	Global 2.9%	UK 0.4%	Spain 0.1%
Italy -0.6%	Japan 2.3%	US 2.2%	US -3.4%	US 6.1%	US 0.9%	US 1.1%	Japan 0.1%	Germany -0.1%
Spain -4.2%	Italy -5.9%	Japan 1.8%	UK -4.2%	Japan 4.8%	Germany 0.4%	Italy 0.8%	Germany -0.9%	US -0.1%

Source: FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. All indices are J.P. Morgan GBIs (Government Bond Indices). All indices are total return in local currency. Data as of 30 November 2017.

Exhibit 5: Index returns for October (%)

INDEX	GBP	USD	JPY	EUR	LOC
Equities (MSCI)					
MSCI World Index	0.3	2.2	0.7	-0.1	1.6
MSCI USA	1.1	3.0	1.5	0.7	3.0
MSCI Europe ex UK	-1.6	0.3	-1.2	-2.0	-1.7
MSCI United Kingdom	-1.8	0.1	-1.4	-2.2	-1.8
MSCI Japan	1.0	3.0	1.4	0.6	1.4
MSCI AC Asia ex JP	-1.3	0.6	-0.9	-1.7	-0.2
MSCI EM Latin America	-4.8	-3.0	-4.5	-5.2	-3.6
MSCI EM (Emerging Markets)	-1.7	0.2	-1.3	-2.1	-0.8
Bonds					
JP Morgan GBI Global (Traded)	-0.6	1.3	-0.3	-1.0	0.2
JP Morgan GBI United States (Traded)	-2.0	-0.1	-1.6	-2.4	-0.1
JP Morgan GBI Japan (Traded)	-0.1	1.9	0.3	-0.5	0.3
JP Morgan GBI United Kingdom (Traded)	0.3	2.2	0.7	-0.1	0.3
JP Morgan EMU	0.8	2.7	1.1	0.3	0.3
Currencies					
Sterling	na	1.9	0.4	-0.4	na
US dollar	-1.9	na	-1.5	-2.3	na
Yen	-0.4	1.5	na	-0.8	na
Euro	0.4	2.4	0.8	na	na

Source: MSCI, FactSet, J.P. Morgan Economic Research, J.P. Morgan Asset Management. Data as of 30 November 2017.

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