

MARKET COMMENTARY

August was a relatively quiet month, with trading volumes below historical averages and equity share prices experiencing modest appreciation. We continued to see a sector rotation out of defensive sectors (healthcare, staples, utilities) into more cyclical sectors (technology, industrials, financials), presumably given the somewhat dovish message from the Federal Reserve that conditions are not yet perfectly aligned to support another rate hike. Simply put, in a low interest rate, low growth world, investors continue to seek growth wherever they can find it. In the case of August, investors sought small cap and emerging market equities as well as more equity-like high yield bonds; investment grade bonds and developed market equities were flattish.

MARKET NEWS

- Crude prices were lifted in August on a report by the International Energy Agency where they forecast that crude oil demand will outstrip current supply by 1M barrels in the second half of 2016
- Recent comments from the Federal Reserve indicate a willingness to raise the fed funds rate at least once in 2016, though some hesitation among board members remains given concerns over a the stagnant inflation environment
- The pace of initial public offerings coming to market has been the slowest since 2009; through July, 54 companies have raised a total of \$11.5B, down nearly 50% from the same period last year; a slew of IPOs are scheduled for after Labor Day (Dealogic)

INDEX RETURNS & MARKET LEVELS^{1,2}

	Description	Month	3 Months	YTD	1yr
Equities					
S&P 500	U.S. large cap	0.14%	4.10%	7.82%	12.55%
Russell 2000	U.S. small cap	1.77%	7.78%	10.23%	8.59%
MSCI EAFE	Non-U.S. developed	0.07%	1.61%	0.49%	-0.12%
MSCI EM	Emerging markets	2.49%	11.94%	14.55%	11.83%

	Description	Month	3 Months	YTD	1yr
Fixed Income					
Barclays U.S. Aggregate	U.S. core inv. grade	-0.11%	2.32%	5.86%	5.97%
Barclays Municipal	U.S. municipal	0.13%	1.79%	4.54%	6.88%
BofAML High Yield Master II	U.S. sub inv. grade	2.23%	5.95%	14.58%	9.18%
JPMorgan EMBI Global TR	Emerging markets	1.80%	7.24%	14.65%	14.82%

	Description	Month	3 Months	YTD	1yr
Alternatives					
HFRX Global Hedge Fund	Hedge funds	0.16%	1.82%	-1.91%	0.78%
Alerian MLP	MLPs	-1.32%	4.33%	13.83%	-6.23%
S&P U.S. REIT	REITs	-3.78%	7.48%	13.85%	25.52%
Bloomberg Commodity TR	Commodities	-1.76%	-2.93%	5.57%	-8.76%

U.S. Economic Measures		
U.S. GDP ³	1.1%	(Q2 2016, second est.)
CPI-U ex Food & Energy ⁴	2.2%	(7/31/2016)
Unemployment Rate	4.9%	(8/31/2016)

	Levels		
	9/2/2016	12/31/2015	9/2/2015
Rates			
2yr U.S. Treasury	0.80%	1.06%	0.72%
10yr U.S. Treasury	1.60%	2.27%	2.20%
3mo LIBOR	0.84%	0.61%	0.33%
Prime Rate	3.50%	3.50%	3.25%
30yr Mortgage Fixed	3.67%	4.19%	4.08%

Commodities			
Gold (\$/oz.)	1,325	1,060	1,138
Copper (\$/MT)	4,607	4,702	5,091
Oil-WTI (\$/barrel)	44.39	37.13	46.30
Nat. Gas (\$/mcf)	2.24	2.28	2.51
Corn (\$/bushel)	2.96	3.49	3.51

Currencies			
Euro (\$/€)	1.12	1.09	1.12
Pound (\$/£)	1.33	1.47	1.53
Jap. Yen (¥/\$)	104.16	120.30	120.17

Notes: 1) Sources: Bloomberg, J.P. Morgan Asset Management, Morningstar, Hedge Fund Research, Bureau of Labor Statistics, Bureau of Economic Analysis. 2) Data as of the date of this report unless otherwise noted. 3) U.S. GDP measures the percentage change during the referenced quarter as published by BEA. 4) Consumer Price Index for All Urban Consumers: U.S. City Average, All Items Less Food and Energy is based on 12-month percent change as published by BLS.

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