

Week in Review

Equity Markets:

US stock markets were up across the board amidst a continued focus on energy markets and an emphasis on geopolitical developments. The S&P 500 Index recognized a gain of 1.23%. Concurrently, the Dow Jones Industrial Average rose by 0.28% while the Nasdaq shot up by 2.07%.¹ The Forward 12-Month Price/Equity Ratio of the S&P 500 stands at 19.2, between its 5-Year Average [19.8] and its 10-Year Average [19.0].²

Hopes for diplomatic progressions were recognized at last week's United Nations General Assembly, including direct conversations between the Iranian President and US negotiators. Meanwhile, this past week saw both a six-month high in the volume of goods ferried across the Strait of Hormuz and a recovery in exports from Saudi Arabia, leading to an easing in crude oil prices.³ President Donald Trump hosted Chinese President Xi Jinping for a state visit to Washington. But while this summit saw a two-month extension granted upon our trade war truce, little else was announced at the time.⁴

Fixed Income Markets:

Bond market volatilities pushed Treasury yields to multi-decade highs before partially recovering by week's end. These volatilities were led by stronger-than-expected PMI data, a weak Treasury auction, and volatile oil prices spurring inflation fears.⁵

Yields on 10-Year Treasuries rose 17 basis points to 5.16%; 30-Year Treasuries by rose the same amount, with their yield increasing to 5.49%. The Bloomberg Aggregate US Bond Index fell by (-0.82%), with Investment Grade Corporates declining (-1.07%) and High Yield Bonds giving up (-0.92%).

Economic Updates:

The S&P Global US Purchasing Managers' Composite Index [PMI] hit a 62-month high in September with a reading of 58.4. This metric indicates the US economy has expanded for four straight months. Manufacturing PMI climbed to 57.0 from August's 53.9; Services PMI was also robust, rising to 58.7 from August's 56.5. Growth in both Production and New Orders delivered high readings for these metrics not seen in 4+ years. That all said, Average Input Costs are now priced at nearly four-year highs.⁶

Looking Ahead

Equity Markets:

This week begins with the release of reciprocal trade lists by both China and the United States, a welcome post-summit development. These listed products will be subject to tariff cuts, recognizing most-favored-nation levels of exchange under World Trade Organization rules. Combined, these items are worth \$60 billion in mutual, bilateral trade.⁷

We also have precarious news on the Iranian front. Last Friday, leadership in Tehran proposed a staged reopening of the Strait of Hormuz to commercial traffic, conditional on the US reaccepting the terms of the Memorandum of Understanding reached earlier this year. Today, the White House rebuffed that proposal. Further indications from the White House are that we are planning to resume bombing campaigns following the midterm elections. This brought oil prices sharply higher to start the week.⁸

Fixed Income Market

Changing geopolitical dynamics, particularly where it comes to the pricing of crude oil, will continue to have a significant impact on bond yields, particularly for Treasuries. These are in addition to the impact from the Federal Open Market Committee's recent increase in the Key Rate (Fed Funds rate) by 25 basis points. Continued fluctuations may be expected.

Rising bond market volatilities, meanwhile, are being recognized globally. As of the end of last week, 10-Year government bond yields hit 5.36% in the United Kingdom; 3.60% in Germany; and 3.07% in Japan.⁹

Economic Updates:

The upcoming week will see multiple important metrics regarding inflation and employment. This Wednesday sees the announcement of Personal Consumption Expenditures; Fed Chair Kevin Warsh has said Core PCE remains the Federal Reserve's preferred gauge to measure domestic inflation. Friday sees the Nonfarm Payrolls report, from which the Unemployment Rate is derived.

Other metrics to be announced this week include the Case-Shiller National House Price Index; the Conference Board's Consumer Confidence Index; the Job Openings and Labor Turnover Survey [JOLTS]; ADP Private Payrolls; Challenger Layoffs; Advance Goods Trade Balance; Retail Inventories; Wholesale Inventories; and Construction Spending.

**** See Important Disclosures on following page

Sources:

- 1) J.P. Morgan Asset Management
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