



Fwd: **J.P. Morgan Early Look at the Market – Sept and Q3 Market Wrap

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Date: September 30, 2015 at 2:03:33 PM PDT**Subject:** **J.P. Morgan Early Look at the Market – Sept and Q3 Market Wrap**J.P. Morgan Early Look at the Market – Sept and Q3 Market Wrap**Market Intelligence website: www.jpmm.com/mi**Sept/Q3 Market Update**

- **Q3 is a period most investors are eager to put in the rearview mirror.** Performance around the world was horrible – the SPX sank ~6.9% in the Sept-end Q, Europe's main indices slumped ~9%, and China's mainland markets plunged (the SHCOMP fell ~29% in Q3). Softening EM growth (esp. in China) and persistent commodity price softness helped plant the seeds for equity weakness but one of the biggest downside drivers was a loss of faith in global policymakers (the surprise CNY devaluation on 8/11, Beijing's bungled response to the mainland stock sell-off, Yellen's unsettling 9/17 press conf, etc). Meanwhile, firms like **Glencore** and **Petrobras** are viewed by many to be possible conduits for turning a contained and confined EM/commodity crisis into a "systemic" event. Events such as Hillary's drug price tweet and the **VW** emissions scandal just acted as incremental fuel for an already burning fire.
- **What can help stocks stabilize?** The bloodline of Q3's turmoil can be traced back to the CNY devaluation on 8/12, an event that greatly exacerbated the existing EM/commodity worries and inflamed concerns of spillover into DMs (inc. the US). Therefore, if risk sentiment is going to heel, economic trends out of China will have to begin stabilizing (something that could very well occur, possibly as soon as the week of 10/12). Meanwhile, Fed liftoff remains a prerequisite for higher stock prices (this is unlikely to occur before the 12/15-16 meeting). A flat SPX year remains possible although that would require a ~130 point rally from present levels (or ~6.7%).
- **The news vacuum will persist for another 1.5 weeks.** Investors have suffered through a death of news and that will last several more days. However, the week of 10/12 brings a deluge of CQ3 earnings and a bunch of China economic data (imports/exports 10/13, CPI/PPI 10/14, retail sales/IP/GDP 10/19, etc).

US Equity Recap

- Sept performance** – compared to Europe and most of Europe, the US indices did OK. The SPX ended the month down 2.65%, the Nasdaq fell 3.3%, and the Dow slumped a mild 1.5% (the R2K suffered more than the others, falling ~5%). The financials lagged a bit behind the SPX in Sept (S5FINL index down 3.17%) although the banks underperformed (off ~3.8%) while REITs saw a big safe haven bid (S5REAL index up 1.77%). The S5INFT tech index outperformed w/a ~1% decline thanks to strength in some semis (NVDA, INTC, and TXN) and large-caps such as MSFT and CSCO while semi equipment (LRCX), wireless semis (QRVO, SWKS, QCOM), and some large-cap HW names (like HPQ and NTAP) lagged. Health care was hit very hard – the S5HLTH index slumped ~5.8% w/most of the weakness coming in the month's final 1-2 weeks (the NBI plunged 11.5% in Sept). Capital goods overall ended right inline w/the SPX (-2.6%) – JOY and CAT were each hit hard amid the commodity carnage (CAT warned during Sept) while defense stocks outperformed (RTN, LMT, and NOC all did well). Staples closed about flat and outperformed – TAP surged on back of the Anheuser/SABMiller merger news while RAI, CPB, KR, CLX, MCK, and HRL all did well too. Energy slumped >6%, falling in sympathy w/oil weakness. Materials were even worse – the S5MATR index fell ~7.6% thanks to pressure in names like MOS, CF, NUE, SHW, and MON (AA outperformed, receiving a boost towards the end of the month on back of its split announcement). Transports fared OK in Sept (the TRAN fell 0.76%). Finally, homebuilders closed off >5%.
- Top SPX stocks MTD:** CVC, TE, TAP, NI, NKE, NVDA, WEC, IRM, HCBK, AAP, ATVI, EIX, CMS, PNW, LB, ES, HCN, PAYX, RTN, PCG, and HRB.
- Weakest SPX stocks MTD:** JOY, CNX, WYNN, CPGX, DO, MNK, NRG, THC, MOS, WMB, ESV, MUR, SWN, CF, HP, FMC, QRVO, MYL, AES, VRTX, and SPLS.
- Q3 performance** – Sept wasn't horrible for the US but Q3 in aggregate was pretty bad w/all the major indices suffering losses (SPX -6.94%, Dow -7.58%, Nasdaq -7.35%, and R2K -12.2%). A lot of the sector trends in Q3 were consistent w/Sept. Banks lagged (the BKX slumped 9.5%) as hopes of Fed liftoff faded and commodity credit worries rose. Tech actually outperformed overall (S5INFT was off "only" 4% in the Q) but the SOX was hit hard (off 11.4%). The S5HLTH slumped 11% and the NBI plunged 18%. Energy and materials were down 17-18%. The safe haven groups all outperformed – utilities +4.4%, staples -0.89%, and REITs +1.5%.
- Top SPX stocks QTD:** TE, CVC, GAS, CB, ATVI, NVDA, HRB, MSI, CMG, AAP, TAP, RAI, GOOGL, AIZ, AMZN, CAM, GOOG, WEC, UA, ED, and TSO.
- Weakest SPX stocks QTD:** JOY, CNX, FCX, WYNN, MNK, SWN, QRVO, MRO, MUR, MYL, GNW, NAVI, SVN, ESV, CPGX, THC, WMB, FMC, NRG, RRC, and CHK.

Europe Equity Recap

- Sept performance** – the SXXP ended the month off 4.14% while the SX5E slumped 5.17%. The SXPP commodities index collapsed 15.38% thanks to heavy selling in stocks like Glencore (which fell nearly 40% in the month of Sept). The SXAP auto index closed off 11.6% due to the VW emissions scandal (VW fell 42% in Sept while Porsche ended off 38%). Banks, telecoms, and energy all had an ugly Sept too (off ~6-7% each). On the upside food/beverage stocks did well (off the Anheuser/SABMiller news).
- Q3 performance** – many of the same trends seen in Sept were present throughout all of Q3. The SXXP and SX5E both sank ~9%. Basic resources and autos were esp. weak (down ~29.4% and 23.8%, respectively). Banks and energy struggled too (off 13.17% and 17.2%, respectively).

Asia Equity Recap

- **Sept performance numbers were generally ugly although some markets fared OK.** TPX -8.19%, NKY -7.95%, Hang Seng -3.8%, SHCOMP -4.78%, and Australia -4.56%. India and Taiwan were essentially flat while South Korea (KOSPI) actually rose 1.1%.
- **Q3 performance figures were universally horrible.** TPX -13.45%, NKY -14.07%, Hang Seng -20.6%, SHCOMP -28.6%, HSCEI -27.55%, Taiwan -12.25%, South Korea -5.3%, Australia -8.01%, and India down 5-6%.

Non-Equity Q3 Recap

- **FX** - The DXY ended Q3 up 0.8% but really has been pretty flat for months now (the DXY hasn't hit a new high since Mar). The EUR was nearly flat over the Q. The JPY jumped ~2% as part of a risk-off move and questions about the BOJ's ability to logistically expand its QQE program. The GBP slumped 3.7% as expectations for BOE liftoff faded. Commodity-linked/EM currencies were very weak vs. the USD during Q3.
- **Commodities** – commodity prices slumped across the board. Brent -23.6%, WTI -23.7%, copper -10.7%, gold -5%, and silver -7.5%.
- **Treasuries** – 2yr yields were essentially flattish in the Q. The timing of liftoff shifted marginally but investors really recalibrated their expectations around the pace of tightening (which drove a bigger rally in the belly and long-end of the curve; 10yr yields fell ~31bp to 2.04%).

Q3 news – a summary of the major events in the Sept-end Q (in order of importance)

- **China CNY devaluation – Mon night 8/11.** This was by far the biggest macro development during Q3 and many took it as a panicked reaction by the Chinese leadership to an economy weakening beyond their control.
- **China bungles its stock market interventions.** The SHCOMP peaked in early June before commencing a steep and steady descent (-7.2% in June, -14.3% in Jul, -12.5% in Aug, and -4.78% in Sept). During the summer months Beijing introduced a slew of initiatives aimed at stabilizing stocks but nearly all of them failed (and in fact the futile activity undermined confidence further).
- **Markets experience enormous volatility during the week of 9/24, esp. on Mon 9/24.** The influence of CTAs/risk parity funds were cited for the enormous price swings witnessed during that week.
- **Fed decision/Yellen press conf – Thurs 9/17.** Investors didn't anticipate liftoff to occur but Yellen's extraordinarily (and many thought inappropriately) dovish tone wound up hurting risk sentiment (stocks slumped Thurs 9/17 in the afternoon and the selling continued into Fri 9/18).
- **Yellen's speech – Thurs 9/24.** This speech was generally well received in that Yellen clarified and adjusted the message from 9/17.
- **EM vs. DM economic divergence** – economic numbers in DMs (the US and Europe) held in pretty well throughout Q3 although trends in EMs weakened meaningfully (esp. Brazil and China).
- **Earnings estimates called into question** - the '15 and '16 St SPX EPS estimates were shaved a few dollars during Q3. For 2016 the St is in print at ~\$130 but that number had been ~\$133-134 and many think it will come in at \$125 or even as low as \$120.

- **Glencore and Petrobras become the two most important stocks anywhere on the planet.** These firms are considered the transmission mechanisms through which the commodity/EM/credit pain will move from isolated and contained to “systemic”. Glencore announced a series of capital-boosting measures, including a stock sale, but the share price still collapsed (it fell ~30% on Mon 9/28 alone). Petrobras also unveiled plans to trim spending and shore up its balance sheet but investor confidence remains very low.
- **VW emissions scandal – week of 9/21.** The viability of VW wasn’t really in doubt but this news crushed the auto-heavy DAX and inflicted more portfolio pain.
- **CQ2 earnings season – through Jul and early Aug.** Overall this was a pretty underwhelming reporting period w/tepid numbers out of the semis, industrials, and media (the last group was prob. the most surprising as many people consider media “staple-like”).
- **AGN’s CQ2 conf call 8/6.** While Hillary’s 9/21 tweet received a lot of attention and weighed hard on HC, the group began its descent back in Aug and AGN’s 8/6 conf. call played a role (on the call AGN implied it would prob. need to wait until early ’16 before deploying the TEVA cash into large M&A, guidance that disappointed a lot of the event-driven investors in not only AGN shares but a number of spec pharma/biotechs).
- **Hillary’s drug price tweet – Mon 9/21.** The Hillary drug price tweet (she unveiled a drug price control plan the following day Tues 9/22) helped draw more attention to this issue and contributed to a collapse in health care stocks.
- **Boehner’s retirement – Fri 9/25.** The timing of this news was more shocking than Boehner actually stepping down. Initially investors feared an ugly Dec as Congress handled spending, the debt ceiling, a transport bill, etc, w/o Boehner’s seasoned hand although the outlook doesn’t seem as bleak at this point (and Boehner may take care of a number of issues before leaving).
- **Greece – the country’s interminable saga reached a resolution during the week of 7/13.** After wasting months and destroying the country’s economy and banking system, Tsipras agreed to an austerity/reform deal even tougher than the one initially offered him when he first came to office.
- **Iran – Tehran and the P5+1 group of countries agreed to a nuclear deal during the week of 7/13.**
- **Russia moves from Ukraine and into Syria.** Moscow’s territorial ambitions in Ukraine are cooling and instead Putin has decided to aggressively assert himself into the Syrian conflict. Throughout the month of Sept Russia shipped military gear to Syria and began launching air strikes.
- **Political protests –** signs of voter discontent were evident around the world. In the US people like Donald Trump and Bernie Sanders are polling very well. Support for Rousseff in Brazil has collapsed. In the UK Jeremy Corbyn was named head of the Labor Party.

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