Overview

- **Equity levels (as of 4:00pm):** S&P500 +5.86pts to 1,992.37; DJIA +60.43pts to 17,039.56; NASDAQ +5.62pts to 4,532.11; R2K +2.49pts to 1,160.01.

- **Market update** — the tape has had a very “melt-up”, “painful”, and “chasy” feel to it lately (esp. Wed and Thurs) and a lot of the last ~20-30 points on the SPX was driven by positioning and sentiment (i.e. by people who were sidelined or short turning around and chasing prices higher). Many had hoped the SPX would provide a better entry point Wed on the “hawkish” minutes but one never came and prices have just continued to grind higher since. Desk flows remain very quiet but the combination of thin liquidity, persistent buy demand, and no selling helped the tape to levitate higher in a pretty linear fashion. Buyers aren’t outright panicked but there is def. a lot more urgency by people who have been caught flatfooted by the last ~90+ points (the urgency on the buy side seems similar to how the selling felt back in early Aug was the SPX was heading towards 1900). It had seemed like the tape would require some consolidation and digestion before convincingly breaking up through 1900 and that remains the case but in the near-term a move up through that level looks more likely than not (but **once we are out of this chasing/positioning-adjusting, low-liquidity, month-end environment the SPX will prob. require a period of rest and could easily slip back into the 1950-1985 range – a lot of people have been forced into a market quickly and will be quick to exit the second momentum turns**). Of course fundamental “reasons” exist for this rally but just as was the case when the SPX looked like it was heading down through 1900, the fundamental landscape just isn’t changing as violently as investor sentiment and positioning are (those latter two forces are much bigger drivers of stocks in the present environment).

- **US equity sectors** – financials were the clear outperformer and banks in particular surged. The BKX finished up ~1.5% and the group saw buying all day. The “reasons” felt nebulous (“the Fed is tightening” and “the regulatory clouds are lifting after this BAC settlement” make some sense but don’t give a very satisfying explanation) but buyers were persistent. C and BAC were the two favorites (each made important upside technical progress). Within tech the gains were pretty broad but HPQ was the upside standout (up nearly 6% after posting earnings overnight – keep in mind the stock actually saw initially selling last night after the numbers hit) while EBAY saw gains too (helped by The Information report speculating on a PayPal spin). Despite the EBAY strength the broader internet space (measured by QNET) closed flatterish and lagged. Health care underperformed the SPX thanks to some profit taking in the biotechs while ACT, SYK, EW, JNJ, and ISRG all led on the upside. The industrials/cap goods only finished up small (they each lagged a touch under the SPX). Retail
has been a huge outperformer but the space saw small profit taking on the whole today (although LB, M, JWN, LOW, and KSS all saw further buying). M in particular is on the cusp of making a big upside technical break. The transports underperformed thanks to weakness in airlines (the XAL fell 1%) and to a lesser extend the rails. HRL was the leader in consumer staples on back of earnings. Top SPX stocks: HPQ, EBAY, HRL, BAC, C, STI, PWR, APH, AVP, CCI, NFX, INTC, HCBK, PDCO, ETFC, and PFG. Weakest SPX stocks: SPLS, MON, VRTX, BTU, GME, MYL, UA, BWA, PCAR, MPC, WAG, DAL, PVH, MNK, DLTR, KORS, ALXN, PETM, NLSN, WHR, and BIIB.

- **Stocks have it much easier than Treasuries in this environment** *(Treasuries are being pulled in two opposing directions and stocks should stop taking their cues from them).* For stocks the landscape is pretty clear – growth dynamics are improving and while the Fed may be tightening they are doing so at an extremely gradual pace. Such an environment favors the type of price action seen in the SPX for the last 18 months. For bonds, while on paper fundamentals would ostensibly point to higher TSY yields that market has to consider what its int’l peers are doing and on a global basis US borrowing costs is the highest it’s been since the late ’80s.

- **Treasuries**: Treasuries were higher on the day as the long end of the curve outperformed while 10y yields hovered around 2.40% (-2.1bps). While treasuries rallied, the long end of the curve (7s/30s) bull flattened while 2s/10s bull flattened ~1.7bps. At 11am ET the fed purchased $2.214B worth of 10yr notes; the Treasury auctioned 5yr TIPS at 1pm ET. The 5 yr TIPS tailed, with yields at -0.281% vs Wl yield of -0.275%. Swap spreads were relatively unchanged on the day.

- **Europe** – Europe had a strong session (SXXP +0.66%, SX5E +1.33%) despite the region’s soft flash PMIs this morning. Autos, chemicals, tech, financial services, banks, insurance, health care, telecoms, and utilities all lagged while basic resources, staples, media, retail, and real estate underperformed. Draghi’s speech Fri at Jackson Hole isn’t expected to contain any fireworks although markets increasingly anticipate the ECB doing more eventually (although prob. not until the TLTROs occur and the stress tests get out of the way). While the PMIs were light and full year forecasts were tweaked lower (JPM trimmed ‘14 GDP assumptions today), it doesn’t seem like the region is suffering a sharp downturn (the problem more is that the upside momentum evident earlier this year clearly has abated).

- **FX** – the DXY finished down small but this comes on back of a big recent run. The GBP was down small vs. the USD but the EUR finished up small. The yen continues to weaken (it slumped 80bp Wed and fell a further 0.07% Thurs).

- **Credit**: CDX.IGs were ~1.5bps tighter while HY was 6.25bps tighter. The SPX was up ~6pts; HY outperformed US equities and IG credit.

- **Commodities**: Commodities were mixed, with crude grains trading in the green, while precious metals and nat gas come for sale. Gold is trading near its lows, down ~100bps to $1,278.08, while silver traded near its highs, flat at $19.47. Base metals underperformed, with copper trading flattish at $319.65. Grains outperformed; with corn trading up ~50bps to $3.69/bu, while wheat traded up ~1% to $5.55/bu. Crude showed some strength, up ~75bps to $94.02/barrel, while nat gas bounced off its lows, up ~1.5% at $3.88.

**Economic Headlines**

- **US**: **Existing home sales make four in a row**: Existing home sales were stronger than expected in July, increasing 2.4% to 5.15mn saar during the month off of a June figure that was revised down only slightly. Existing home sales have now increased in the most recent four reported months after slumping between July 2013 and March of this year. Existing home sales had dropped 15% during this weak period but have rebounded 12% since then (both figures not annualized), and many other
housing indicators have shown similar improvement recently after earlier slumps. Aug 21st Silver https://jpmm.com/research/content/GPS-1476474-0

- **US: Claims drop back down to 298,000:** Initial claims dropped 14,000 to 298,000 during the week ending August 16 from a figure for the prior week that was revised up slightly. This latest decline was about in line with expectations and undid more than half of the increase reported for the previous week. The claims data have bounced around in recent weeks—which is normal for the series—but the trend shows clear improvement in the labor market over the past few months, despite the latest figures not looking quite as favorable as some of those reported a few weeks back. The four-week moving average for claims—which smooths through some of the volatility—has declined from 337,000 at the beginning of March to 309,000 during the reference week for the July employment report and then 301,000 during the reference week for the August employment report (the week ending August 16). Aug 21st Silver https://jpmm.com/research/content/GPS-1476392-0

- **US: The good times keep rolling for the manufacturing surveys:** Both manufacturing surveys released this morning came out stronger than anticipated. The Markit manufacturing PMI’s headline increased from 55.8 in July to 58.0 in the flash August report, reaching its highest level since April 2010, and the Philadelphia Fed survey’s headline increased from 23.9 in July to 28.0 in August, reaching its highest level since March 2011. Many of the main details within the PMI survey also improved in August and came in at strong levels. Meanwhile, many of the main details of the Philadelphia Fed survey weakened in August off of very strong July levels, but still looked solid in the August report (its headline measures general business conditions and is not derived as a composite of subcomponents). The three available August manufacturing surveys (including the Empire State survey reported last week) have sent somewhat differing messages about the changes in activity between July and August, but all have been strong in recent months and point to continued solid growth in the manufacturing sector. Our forecast calls for manufacturing output to increase 4.5% saar in 3Q after the 6.7% saar jump reported for 2Q. Aug 21st Silver https://jpmm.com/research/content/GPS-1476456-0

- **Euro area PMI prompts a small forecast change but raises big questions:** Aug 21st Fuzesi https://jpmm.com/research/content/GPS-1476360-0

- **UK: Retail sales rose in July, public borrowing close to expectations:** Aug 21st Monks https://jpmm.com/research/content/GPS-1476286-0

- **Sun’s shining in Norway:** 2Q14 mainland GDP was up 4.9%q/q, saar: Aug 21st Brun Aguerre https://jpmm.com/research/content/GPS-1476370-0

- **Hong Kong: CPI turned up again to 4.0%oya in July, led by the expiration of government’s electricity subsidy:** Aug 21st Jiang https://jpmm.com/research/content/GPS-1476251-0

- **Japan: August Reuters Tankan; better manufacturing and softer nonmanufacturing:** Aug 21st Nakamura https://jpmm.com/research/content/GPS-1475986-0

**SECTORS**

**Financials**

- The financials were the star performer Thurs. No one had a great “reason”. Some of the more popular ones included “the Fed is tightening and banks are levered to higher rates” (but that isn’t necessarily congruous w/the narrative around FOMC policy which envisions a very, very gradual tightening process and note that rates actually fell today) and “regulatory clouds are lifting” (that has some truth to it following the BAC settlement although at several times over the last few years banks incorrectly looked forward to a more lucid regulatory landscape only to be disappointed). The
buying in the banks was relatively urgent today and more than any other group there was chasing in this space. The BKX jumped 1.5% and is once again making an assault at the technically important ~72 level. BAC and C were the two leaders (and technically both made very important upside progress) while a handful of regionals saw buying too (inc. STI, RF, MTB, NYCB, CMA, and FNFG). No major bank saw outright losses but the trusts remain relative laggards. Within brokers the group was green across the board (ETFC, GS, PJC, and RJF all finished up >2%). Traditional asset managers all rallied but the alternative ones lagged (BX, OZM, and FIG). Insurance outperformed the SPX but lagged behind the banks (PFG, GNW, AIG, HIG, XL, L, and PGR all outperformed).

**Tech**
- Tech performed a bit better than the overall market. The gains were broad but HPQ was the big standout (on earnings) while EBAY caught a bid on The Information PayPal article. AAPL and MU, two of the most popular stocks in all of tech, tried to sell-off in the morning but buyers stepped into the weakness (they each closed in the red but off the morning lows).
- **Hardware** – strength across the board. HPQ was the big standout (it finished up just under 6%). Initially the HPQ print prompted light selling (last night) but this morning buyers stepped into the name. IBM traded well in sympathy. AAPL felt “tired” but still finished the day higher.
- **Semis** – the SOX has been on a tear of late. ONNN, ASML, INTC, AMAT, TER, ATML, BRCM, QCOM, and TXN all outperformed while TSM, AMD, NVDA, CREE, and SWKS lagged. The SOX has finished in the green for the last 7 consecutive sessions. A bunch of stocks caught a bid on the Infineon/IRF deal Wed but they saw further gains Thurs (inc. ISIL, FCS, etc). SMTC rallied on earnings.
- **Software** – the space was mixed w/some of the “momentum” names finishing flat-to-dwn small while the more traditional stocks outperformed. ORCL, TIBX, CTXS, ADBE, and CVLT all were some of the top performers. WDAY, VMW, SPLK, and QLIK lagged. CRM was flattish into earnings.

**Telco/Media/Leisure**
- **Media**: The sector underperformed the SPX on the back of conglomerates (CBS, FOXA, TWX) weakness. DIS was strong throughout the day and AMCX caught a bid in the afternoon and closed near its intraday high.
- **Internet**: The sector underperformed the SPX and there wasn’t anything to point to for an explanation. EBAY finished up ~4.5% on news that the company plans to spin off PayPal as early as next year ([http://goo.gl/TlyNde](http://goo.gl/TlyNde)). The stock briefly gave back some of its earlier gains on a subsequent Reuters article that “the companies position has not changed” ([http://goo.gl/93rKuo](http://goo.gl/93rKuo)).
- **Telco**: The sector mildly underperformed the SPX but still finished in the green. TMUS sold off after Sprint’s new individual plans were announced, and finished down ~1.25%. CTL and FTR spiked on news that CTL may spin off assets into a REIT (this was mentioned on Bloomberg), both have since come back and mildly outperformed the SPX.
- **Gaming & Lodging**: Macau gaming (MAR, WYNN, MGM) finished in the red, while domestic gaming (BYD, PNK, PENN) outperformed the SPX. Hotels (WYN, HOT) were flattish, while cruises (CCL, NCLH) gave back its earlier gains and wound up underperforming.

**Industrials/Materials/Energy**
- **Multis** underperformed, with DOV (-0.75%), WCC (-0.25%), and LII (-0.75%) coming under pressure as the group returned some of yesterday’s outperformance.
- **Distributors** outperformed, with HDS (+1%) catching a bid on the back of: 1) Solid existing home sales data out earlier this AM 2) HD’s continued outperformance from earnings earlier this week
- **Capital equipment** was in line with the tape, with CAT (+0.50%) trading higher on the back of solid 3 month rolling retail sales data that was out yday.
- **Ag equipment** was in line with the tape, with AGCO (+1%) and DE (+0.50%) catching a small bounce thanks to the 1.5% rally in grain prices.
- **Defense names** were on the move, with CACI (+1.5%) outperforming on the back of a solid print yday after the close. The co reported a 57c beat on EPS and reiterated their FY15 rev, net income, and EPS guidance issued on 6/25.
- **Builders** were relatively in line with the tape following solid existing home sales data coming out earlier this morning.
- **Building products** were outperformed thanks to HD (+0.50%) extending gains from Tuesday’s earnings beat and raise. PGEM (+4.75%) outperformed after the co announced yday morning that they bought FBHS’ Simonton Windows for ~$130M.
- **Transports** came under pressure today, weighed down by lackluster performance from airlines and rails. There wasn’t a specific bit of news driving the market action in the group today. Airlines and rails came for sale as investor took profits from this week’s solid outperformance.
- **Materials** were laggards, with weakness in metals driving today’s underperformance.
- **Industrial metals** came under pressure, with AKS (-2.25%), CLF (-3.75%) and X (-1.5%) taking a leg to the downside on the back of weak Chinese PMI out overnight.
- **Ag products** caught a bid, with POT (+0.50%), CF (+0.50%), and MOS (+0.50%) trading higher on the back of a 50-100bps move higher in grain prices today.
- **Energy** bounced off its lows to finish in line with the tape, with nat gas trading up 1.5% on the day, while crude (+0.75%) followed close behind. The market action we saw in the group was the result of positioning/sentiment and a move higher in the underlying commodity prices, especially nat gas.

**Consumer**
- **Consumer space underperformed the broader market.** Retail space broadly took a bit of a breather following the very strong trading over the past few sessions. Earnings generally continue to come in better w/PLCE (+8%), BONT (+13%), BKE (+4%) & LB (+1.3%) all rallying after earnings although SHLD (dn 7.5%) & SSI (dn 8%) ended lower. The next wave of retail earnings continues tonight w/ROST, GPS, TFM, GME & ARO. Office Superstores (ODP dn >4%, SPLS dn 3%) lagged as did Consumer Electronics (GME dn 1.7% into tonight; BBY dn 0.7% ahead of earnings next week) while AEO added another ~3% to yesterday’s rally after 2 sell-side upgrades and SBH was up ~3% after increasing its share repurchase authorization. Restaurants were mixed w/YUM & SBUX underperforming while EAT, MCD & CMG were all up ~0.5% (BJRI was up >2% and the strongest name in the space). In Consumer Staples, HPC names held in better than the rest of the space (PG, KMB, CLX, NWL, AVP, JAH, etc. all higher) while HRL led in the Food/Protein space. Beverages were mixed w/KO & DPS gaining while MNST, CCE & PEP were down a little.
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