Week in Review

Equity Markets:
The S&P ended the week up 1.9% and is down ~19% from the early January market peak. So far, the markets appear to be taking softer economic numbers in stride, in hopes that it will ease the Fed's hawkish policy stance. This sentiment likely led to growth stock outperformance last week. The NASDAQ ended the week up nearly 4.85%, more than doubling the S&P's performance. Year-to-date, value and quality have outperformed growth in this higher interest rate environment.

Q2 earnings season is still in the early stages. So far, 18 companies in the S&P 500 have reported earnings. 72% of the 18 have beat earnings expectations.

Fixed Income Markets:
The yield curve inverted for the second time this year as the 2's/10's spread turned negative last week. The curve remained inverted at the close of the week with the 2-year treasury yielding 3.105% and the 10-year treasury yielding 3.08%. This spread has historically been an indicator of a slowdown in economic activity, but the timing of the slowdown has ranged from six to 24 months, according to a San Francisco Fed Study.

Economic:
In a surprise beat, June's nonfarm payroll numbers came in at 372,000, well above the estimates of 265,000. The markets oscillated between red and green on Friday after the announcement. The unemployment rate remained at 3.6%. The JOLTs report showed the labor market is still strong and there are nearly two jobs for every one person who is unemployed. As seen in headlines over the past few weeks from major technology firms, layoffs moved slightly higher according to the report. The Federal Reserve watches the JOLTs report closely for indications of a softening labor market, which has historically tended to coincide with economic slowdowns.

Looking Ahead

Equity Markets:
Earnings season will ramp up this week. Multiple banks will report and two Dow 30 components will report – United Healthcare and JP Morgan. The current forward P/E of the S&P stands at 16.3x according to FactSet. This is below the 5- and 10-year averages. Q2 earnings season could be a pivotal point for the markets through the end of the year. Earnings estimates have only slightly decreased since the beginning of the year and the earnings outlook this earnings season should be very telling for markets. If the unexpected occurs amidst softening economic data, and we see better-than-expected earnings, multiples would compress further. This could lead to a swift upward move for the markets.

We believe investors should block out the daily noise, allowing for focus on identifying long-term investment opportunities. With economic slowdown headlines becoming more apparent daily, it is easy to overlook the opportunities in the market. If earnings maintain a decent footing, the S&P is trading at a suppressed valuation. For a long-term investor, these times do not come around often. The markets appear to have priced in a slowdown, if not a mild recession. In our view, the fundamental strengths of the economy, (the labor market and health of the consumer) likely won't lead to a severe economic contraction. We may see further downside than what we have already seen but are not attempting to call tops or bottoms.

Fixed Income Markets:
The Fed's Beige Book will be released this week in preparation for the next FOMC meeting on the 27th. The Beige Book gives insight into business activity in different regions across the country.

The 10-year Treasury yield jumped nearly 0.2% last week. Our view on rates over the next nine to 12 months has the 10-year spending the majority of the time in 3.00-3.5% range. We believe structural deflationary trends from a longer-term perspective should keep rates relatively anchored if they were to move above that range for periods of time.

Economic:
This week we will see a host of important economic numbers. June's CPI numbers will be released on Wednesday, followed by the Producer Price Index Thursday and the Preliminary University of Michigan's Consumer Sentiment Index to end the week on Friday. As recession fears increase, these three numbers will be watched closely and have the potential to initiate knee-jerk reactions across various markets.

See following page for important disclosures

Important Disclosures:

Investment Advisory Services offered through Krilogy®, an SEC Registered Investment Advisor. Please review all prospectuses and Krilogy's Form ADV 2A carefully prior to investing. This is neither an offer to sell nor a solicitation of an offer to buy the securities described herein. An offering is made only by a prospectus to individuals who meet minimum suitability requirements.

All expressions of opinion are subject to change. This information is distributed for educational purposes only, and it is not to be construed as an offer, solicitation, recommendation, or endorsement of any particular security, products, or services. Diversification does not eliminate the risk of market loss. Investments involve risk and unless otherwise stated, are not guaranteed. Investors should understand the risks involved of owning investments, including interest rate risk, credit risk and market risk. Investment risks include loss of principal and fluctuating value. There is no guarantee an investing strategy will be successful. Past performance is not a guarantee of future results. Indices are not available for direct investment; therefore, their performance does not reflect the expenses associated with the management of an actual portfolio.The S&P data is provided by Standard & Poor's Index Services Group.

Services and products offered through Krilogy® are not insured and may lose value. Be sure to first consult with a qualified financial advisor and/or tax professional before implementing any strategy discussed herein.