Week in Review

Equity Markets:

Despite a strong final trading day of the week, which saw the S&P rise nearly 2%, the index ended the week down 0.9%. The large move was in large part due to a surprise beat in June Retail Sales.

Earnings season ramped up last week, with many of the major banks reporting. 7% of the S&P 500 companies have reported thus far, and 60% have beat earnings expectations. This number is below the 5-year average of 77%. This is a small sample size and there are many more companies yet to report that can change these numbers. It is clear, however, that worries from analysts coming into earnings season are at least partially correct.

Fixed Income Markets:

The 2's/10's inversion went severely negative this week. At one point, the spread was -0.2%. This is the most negative this spread has been since the year 2000, according to data provided by The St. Louis Fed. Historically, when this spread turns negative, it indicates economic growth will slow at some point in the future. The timing of the slowdown has historically ranged from 6-24 months.

Following the high CPI report, fixed income traders appear to be pricing in another large rate increase by the Fed at their next meeting on July 26-27. The bond market is implying the Fed Fund's rate will be in the range of 3.5-3.75% by January 2023. This rate currently sits at 1.5-1.75%.

Economic:

The headline report was the June CPI report released on Wednesday. Headline CPI came in at 9.1% year-over-year, which continues the streak of highest inflation seen in decades. Core CPI, which excludes the volatile components of Food and Energy, rose 5.9% year-over-year. Both of these were above analyst expectations of 8.8% and 5.7%. Not all reports were negative, however, and were a welcomed sight by the markets. The preliminary University of Michigan Consumer Sentiment Index surprisingly rose to a level of 51.1. A surprise beat by retail sales helped the markets end the week on a positive note. June's retail sales report showed that sales grew 1% month-over-month, higher than the Bloomberg Forecast of 0.9%.

Looking Ahead

Equity Markets:

We will see earnings from the rest of the major banks this week, and major companies from the tech sector, as well as economic sensitive sectors of industrials and materials. Banks have shown mixed earnings results, but insights into different areas of the economy are of much interest due to their sensitivity to inflation. These sectors can also provide more insight into the habit of the consumer.

The S&P is currently trading at 15.8x forward earnings. This multiple is based on the assumption that earnings will grow at 4.2% according to FactSet. This multiple is below the 5- and 10-year averages. For long-term investors, the market is more attractive and could provide suitable long-term returns for investors that have a multi-year time horizon.

We see areas of opportunities for investors, but still believe investors should stay cautious and remain disciplined. Rules-based rebalancing is a great opportunity to purchase equities at depressed prices without taking on significant excess risk.

Fixed Income Markets:

We won't hear from Fed members as they go quiet before their meeting on July 26-27. The 10-year closed the week at 3.02%. Over the past four weeks, the 10-year has reached highs at 3.5% and swiftly moved down to below 3%. We believe this action in rates will continue as the market works through the current economic situation.

We still believe that the 10-year will spend the majority of its time in the 3.00-3.5% range. If rates move below this range, we believe sentiment around Fed rate hikes will push rates back to the low end of our range. If rates break out above 3.5% it's unlikely to stay significantly beyond those levels for a substantial period.

Economic:

Economic numbers will be light this week but we will receive an updated view of the housing market. The NAHB Housing Market Index will be released on Monday, followed by housing starts on Tuesday and Existing Sales on Wednesday. On Thursday, weekly unemployment claims and the Conference Board Leading Economic Index will finish the week.

See following page for important disclosures

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