Week in Review

Equity Markets:

Despite the nearly 1% reversal by the S&P 500 on Friday, the index finished the week solidly in the green. The index was up 2.6% for the week. Growth stocks were favored this week as yields declined and the NASDAQ finished the week up by 3.3%. The NASDAQ still lags year-to-date, down nearly 25%. The S&P and Dow are down 16.9% and 12.2%.

Earnings season is in full swing, with 21% of the S&P 500 companies reporting thus far. 68% of companies have beat earnings estimates and 65% have beat revenue estimates, according to FactSet. Both of these numbers are below the five-year averages, but results have been better than feared at this point.

Fixed Income Markets:

Bond prices rallied this week as we saw bond yields fall. The 10-year yield ended the week at 2.75. This is a significant drop from the mid-June high of 3.48%. Longer maturity yields have fallen as investors believe the slowing economic numbers could ultimately slow the pace of the Fed rate hikes.

The yield curve remained inverted; the 2's/10's spread ended the week at ~0.22%. Yields on the short end of the curve remain higher, likely due to the expected rate hike this week by the Fed. When odds of an economic slowdown and possible recession increase, the bond market tends to rally, pulling long-term yields down.

Economic:

Economic numbers last week continued the softening trend. The Conference Board's Leading Economic Index declined 0.8% which marks a four-month streak of decreases. The NAHB Housing Market Index dropped to a level of 55. Continuing unemployment claims were 251,000, rising for the third consecutive week

In a surprise contraction, the S&P Global Services PMI fell to 47. A reading below 50 is considered in contraction territory. The S&P Global Manufacturing PMI declined to 52.3, above the Bloomberg estimate of 52.

Looking Ahead

Equity Markets:

We are in the heart of earnings season. This week's reports will have some of the top names in the market, which include Alphabet (Google's Parent Company), Microsoft, Meta, Amazon, and Apple. Earnings growth has slowed, but the growth rate has ticked up recently. As of last week, the blended earnings growth was 4.8% according to FactSet. This is higher than the 4.1% from the prior week and the 4% at the end of the second quarter.

The S&P currently has rallied nearly 9% from the June 17th low. The rally has been a welcomed sight, but it is not a time for investors to let their guard down. Rallies during a bear market are common. The current bear market saw a ~11% rally in March and a ~7% rally in May. The bottoming process for the market usually takes time. Staying disciplined throughout it has historically rewarded investors. A well-defined long-term investment strategy assists with staying disciplined and staying invested in the market. Systematic rebalancing is a great tool to capitalize on the short momentum turns, buying assets that have been oversold and that are fundamentally attractive.

Fixed Income Markets:

The FOMC has its policy meeting on Tuesday and Wednesday this week. Markets are anticipating the committee will raise rates, at a minimum, by 0.75%. After the higher-than-expected CPI reading a couple of weeks ago, the odds of a larger increase have risen. If a full percentage point increase takes place, it would be the largest rate hike since the Fed started using the overnight rate to conduct monetary policy, according to Bloomberg.

We still believe that the 10-year yield will spend the majority of its time in the 3.00-3.5% range over the next six to 12 months. This is due to the current inflationary environment and the actions the Fed will need to take to bring inflation down. As the Fed hikes rates, we continue to see yield curve flattening.

Economic:

We will see the first of three Q2 GDP reports on Thursday. After negative growth in Q1, this report will be closely watched. Timely insight about the American consumer will be released on Friday as numbers come in for personal income and spending, and the University of Michigan Consumer Sentiment Index.

See following page for important disclosures

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