Week in Review

Equity Markets:

The S&P stretched its winning streak to four weeks, finishing the week up 3.3%. A cooled inflation report helped propel the markets higher. If inflation is in fact slowing, the market expects the Fed to ease the rate hikes.

455 out of the 500 S&P companies have reported earnings thus far. 75% of companies have beat earnings expectations, according to Bloomberg. Earnings growth has been much better than expected and stands at 8.7%. Earnings growth has helped the market climb higher. The energy sector leads in earnings growth. At a 299% year-over-year growth rate, the sector has had a large contribution to the overall earnings numbers this year.

Fixed Income Markets:

The 10-year treasury traded with heightened volatility this week, seeing an intraday low of ~2.67% and an intraday high of ~2.9%. However, it ultimately ended the week nearly flat with a yield of 2.84%.

The volatility is on the back of a slowing inflation report and the impact of potential Fed policy going forward. Inflation is still at a multi-decade high, and the Fed will likely need to keep upward pressure on rates to bring inflation down.

Economic:

Inflation numbers cooled off in July with the CPI coming in at 8.5% and the PPI at 9.8%. Levels are still at historical highs, but the cooling off is a welcomed sight for investors. Consumer sentiment surprised to the upside. The preliminary University of Michigan Consumer Sentiment Index came in at 55.1. Consumer inflation expectations dropped to 5%, down from 5.2% reported in July.

Looking Ahead

Equity Markets:

The market has had a strong rally in the 3rd quarter and has cut its losses roughly in half. We still believe that the market will see heightened volatility throughout the rest of the year. The earnings season has been better than expected, but earnings revisions are happening at a higher rate. Many analysts believe earnings revisions to the downside are to come for the rest of the year. Next quarter's earnings will be an important gauge of how much the rate hikes have impacted companies' profits.

Investors should remain disciplined going into what has historically been a tough time for markets. September and October have historically been volatile months. We are also entering the mid-term elections which will likely add to the volatility. Dynamic rebalancing is a good tool to utilize through volatility. Investors could have the opportunity to purchase assets that are indiscriminately oversold and still have long-term fundamental strength.

Fixed Income Markets:

Minutes from the most recent FOMC meeting will be released this Wednesday. The Fed has made it clear they will stay aggressive to bring inflation back to its target of 2-2.25%.

The CPI and PPI reports were a welcome sight by the markets, but the Fed is still in a tough position. Inflation remains well above the long-term target and the hikes so far have not had the immediate effect some expected. We still see rates moving above 3% in the intermediate term. The Fed is likely to continue raising rates at the next FOMC meeting, and their balance sheet roll-off will continue to increase and likely put upward pressure on rates.

Economic:

There will be some important economic releases this week. From the housing sector, we will see a report Tuesday on housing starts, and Thursday on existing home sales. Regional manufacturing reports out of Philadelphia and New York will be closely watched in hopes of improvements following the better-than-expected inflation reports last week.

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