Week in Review

Equity Markets:

The S&P saw high volatility throughout the week. Between Monday and Tuesday, the S&P gained 5.7% in that span. This two-day surge was the largest since 2020. The majority of the gain was then given back as the S&P finished up 1.5%.

Currently only 4% of S&P 500 companies have reported earnings. Thus far, 50% of these companies have cited the strong dollar as having a negative impact on their earnings, according to FactSet research. Also, 65% of companies have reported that labor cost pressure will likely have a negative impact on earnings going forward.

Fixed Income Markets:

The fixed-income market was not immune to the whipsaw volatility last week. The 10-year treasury ended September with a 3.83% yield. Last week, we saw that yield drop as low as 3.56% on Monday, but ultimately ended the week modestly higher from the previous at 3.88%.

Actions taken by other central banks across the globe drove yields down on Monday and the slowing JOLTS report on Tuesday put downward pressure on rates. All of the price gains were lost by the end of the week, in part due to the surprise payroll report on Friday.

Economic:

The labor market took most of the headlines this week. On Tuesday, the JOLTS report showed that job openings decreased in September but the non-farm payroll numbers showed the labor market is still on strong footing. Monthly gains in September came in slightly above analysts' forecasts and unemployment took a surprising drop to 3.5%. This was due in large part to a drop in the labor force participation rate.

Consumer credit for August was released on Friday. Consumer borrowing was up ~18% year-over-year. This will be a close number to watch going forward. The cushion consumers built following the COVID stimulus could dry up due to stubbornly high inflation.

Looking Ahead

Equity Markets:

Earnings season will start gaining traction this week. We will begin seeing a number of companies report daily. The highlights for this week will be the major companies in the financial sector, as well as members of the airline industry, healthcare sector, and consumer staples. In May, Q3 estimates for the S&P stood at 10.5% year-over-year growth. According to FactSet, expected earnings growth currently sits at 2.4%. If the estimate holds true, this would be the lowest earnings growth rate since the depths of the pandemic in 2020.

We recognize there are vulnerabilities in the market. If you combine that with uncertainty around fiscal policy, inflation, and the labor market, the environment, on the surface, does not lend itself to looking opportunistic. We believe if you take a few steps back and look at the landscape as a whole, there could be a different opinion. From the early January high the S&P is down ~24.5%. Inflation is still just above 8% but has come down steadily over the past few months and should increasingly show up in the data. Market sentiment still remains at historical lows. We believe staying disciplined is the best approach in this environment. This process likely still takes time and investors should expect volatility until the Fed feels they have done enough through policy action to get its arms around inflation.

Fixed Income Markets:

For the first time in over a decade, the equity markets have a worthy alternative. The current rate structure is attractive from our point of view. The ability for investors to purchase treasuries at 3.75+% across the maturity spectrum could be a phenomenon that won't last. We still believe that we are near the high in the bond cycle and the risk/reward tradeoff is presenting a good opportunity for investors who are looking to obtain sufficient equity market downside protection in the future or who have yield-driven goals.

Economic:

On Thursday, September's CPI report will be released. The Producer Price Index and Import Price Index will round the inflation picture for the week. These reports have the potential to swing the market because these reports are going to be major influences on the Fed's policy decision later this month.

Timely readings on the consumer will come out Friday. October's Preliminary University of Michigan Consumer Sentiment Index and September's retail sales numbers should indicate if consumer strength is beginning to wane.

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