## Week in Review

*Equity Markets:*

The markets ended the week essentially flat after trading in a very tight range. The S&P 500 is up 7.7% for the year and has recovered essentially all of the losses from February and March and is trading near the year-to-date high.

18% of S&P 500 companies have reported first-quarter earnings so far. 76% have beaten earnings expectations and 63% have beaten revenue expectations. The current earnings surprises are below the 5-year average of 77% but above the 10-year average of 73%, according to data collected by FactSet. The blended earnings growth rate is -6.2% which would be the worst quarter for earnings since Q2 2020[1].

*Fixed Income Markets:*

Treasury yields saw little movement last week. The 10-yr Treasury yield finished last week at 3.57%, only up 0.01%. The bond market has had little movement over the past few weeks as market participants are likely waiting for the FOMC rate hike meeting in May.

The futures market is pricing in a 90% probability of a 25-basis point rate hike at the May meeting[2]. This is drastically higher than the 17% probability from a month ago. Inflation has cooled in short order but remains stubbornly high. Fed members have continued to signal their commitment to extinguish inflation and will not prematurely pause.

*Economic:*

The housing market continues to cool. Home prices declined for the second month in a row, which is the first time in 11 years to see consecutive declines[3]. The Conference Board's Leading Economic Index declined for the 12th consecutive month, falling 1.2% in March[4].

## Looking Ahead

*Equity Markets:*

This week will be very busy on the earning front. Roughly a third of the S&P 500 will be reporting results. Some of the largest mega-cap names will be reporting and have the potential to sway the market in a significant way. These next two weeks will be very important in setting the tone for the rest of the year. First-quarter earnings have fared slightly better than hoped, but earnings remain negative year-over-year. Analysts have begun to revise their earnings expectations for the latter half of the year. First Quarter and Second Quarter earnings expectations remain negative, -4.7% and -4.4% respectively[5]. Third Quarter expectations currently stand at a growth rate of 1.9%. This compares to expectations of 5.5%[6] as recent as January 1st.

The market is a discounting mechanism and will look past the current environment and has historically started a new run prior to a trough in earnings. We believe investors should remain committed to their long-term investment allocations and stay diversified across sectors, regions, and market capitalization. A new cycle can begin in short order and is usually not recognized until after the fact. We are in the midst of earnings revisions and we remain neutral in a view of the equity markets. For investors with a multi-year timeframe, a disciplined investment strategy can provide sufficient opportunities across the market.

*Fixed Income Markets:*

The Fed will be in its quiet period this week, in preparation for the policy meeting taking place on Tuesday and Wednesday of next week. The market believes they will raise the benchmark rate one last time by 25 basis points before a pause. If they follow through with the increase, it would put the Fed Fund's Target Range at 5.0-5.25%. This would imply they have reached their terminal rate Chairman Powell expressed last October.

We believe the fixed-income market is in a position for strength as we near the end of the rate-hiking campaign. The likelihood of the Fed raising rates more than two more times is low in our opinion. This would mean we have likely seen the high in the 10-year Treasury, which was 4.25% last October. Until the pause occurs, we could see short bouts of volatility and see yields tick moderately higher before settling in the 3-3.25% range over the next 6-12 months.

*Economic:*

We will see multiple economic reports this week. To kick off the week the S&P/Case-Shiller Home Price Index and the Consumer Confidence Index will be reported on Tuesday. First-quarter GDP will be released on Thursday. Analysts are expecting Q1 GDP to grow by 2%[6]. The Personal Consumption Expenditures Index will be released on Friday. This is the preferred inflation gauge of the Fed and will be timely a read before the policy meeting next week.

**** *See Important Disclosures on following page*

*Sources:*

*1)FactSet*
*https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_042123.pdf*

*2)CME Group*
*https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html*

*3)John Hancock Investment Management*
*https://www.jhinvestments.com/weekly-market-recap#market-moving-news*

*4)Charles Schwab*
*https://www.schwab.com/learn/story/schwab-market-update*

*5)I/B/E/S data from Refinitiv*
*https://lipperalpha.refinitiv.com/wp-content/uploads/2023/04/TRPR_82221_694.pdf*

*6)The Conference Board Leading Economic Index.*
*https://www.conference-board.org/topics/us-leading-indicators*