

Week in Review

Equity Markets:

The markets had a strong week and the S&P 500 briefly moved past the 4,200 mark; which has been a major topside level. The S&P finished the week up 1.6% while the NASDAQ extended its year-to-date spread finishing up 3%. Growth has outperformed Value in a large way this year¹, reversing the Value trend last year.

95% of S&P 500 have reported earnings for the first quarter. 78% have beaten earnings expectations and 76% have beaten revenue expectations. Companies reporting an earnings surprise are above the 5 and 10-yr averages, 77% and 73% respectively². This is in large part by the low expectations coming into the quarter. Analysts were anticipating a 6.7% earnings decline for the quarter, but the blended earnings growth has fared much better at -2.2%.

Fixed Income Markets:

Yields rose for the week as the bond market had a small sell-off on the heels of slowing talks on the debt ceiling. The 10-yr Treasury finished with the week 24 basis points higher, yielding 3.7%. The 1-year Treasury finished the week above 5%; continuing its climb to yields last seen over 20 years ago.

Federal Reserve Chairman, Jerome Powell, spoke at a conference last week. Some of his comments appeared to be more dovish than his post-FOMC press conference. The Fed will remain diligent in monitoring inflation, but it appears a pause could be the next action taken.

Economic:

The Conference Boards Leading Economic Index fell again in April, declining 0.6%. The NAHB Housing Market Index came in at 50. This is the first positive reading on the index since July of last year. Existing home sales fell 3.4% in April. Supply still remains tight, with a 2.9-month supply. A six-month supply is considered to be a balanced market, according to the National Association of Realtors³.

Looking Ahead

Equity Markets:

Corporations have shown their resilience this quarter. Earnings have come in much better than expected. Much of the leadership this year has been dominated by mega-cap technology companies. Large-cap growth has outperformed large-cap value by a roughly 18.5% margin¹. Investors should remain diversified because as we saw last year, style rotations can occur at any point. Over-exposure to current trends can leave a portfolio vulnerable and increase risks as the trend breaks down.

We still have high conviction that earnings and fundamentals will be the driving force for the markets this year. Staying disciplined in your long-term investment plan will help ride out any short-term volatility. There are a handful of external risks that could have short-term impacts on the markets, but we see these opportunities for a systematic rebalancing program to purchase assets that are indiscriminately sold off and present long-term opportunities.

Fixed Income Markets:

On Wednesday, the minutes from this month's FOMC meeting will be released. The markets are hoping to find indications of a pause once the full minutes are released. Members of the Federal Reserve have some conflicting opinions on the need for further rate hikes. Some believe a pause is the best path; while others are advocating for at least one more 25 basis point hike.

We believe the decision to pause or slightly raise rates again will have little impact on the fixed-income markets. The majority of the damage occurred last year with a swift rise in rates in a matter of months. This is why we still believe the high on the 10-yr treasury from October is likely to be the ultimate high for this cycle.

Economic:

This week's economic big economic news will be at the end of the week. The Fed's preferred inflation gauge, the Personal Consumption Expenditures Price Index (PCE) will be released Friday morning. Also on Friday, the University of Michigan Consumer Sentiment Index will report. The second estimate for first-quarter GDP will be released on Thursday.

**** See Important Disclosures on following page

Sources:

1)JP Morgan
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

2)FactSet
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_051923.pdf

3)National Association of Realtors
<https://www.nar.realtor/newsroom/existing-home-sales-faded-3-4-in-april>

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