

## Week in Review

### Equity Markets:

The S&P 500 notched its fourth winning week in a row, finishing the week up 0.4%. Year-to-date the S&P is up 12%, being outpaced by the NASDAQ which is up 26.7%. A style shift occurred last week with small caps outperforming their larger counterparts. The Russell 2000 finished up 1.92%.

Volatility has hit a multi-year with the VIX finishing the week at a level of 13.8. The VIX represents the market's expectation for volatility over the next 30 days. After a year of heightened volatility, this has been a welcomed sign by investors.

Second quarter earnings results will be starting soon. As of today, consensus estimates are anticipating an earnings decline of 6.4% for the S&P 500<sup>1</sup>. This would mark the third consecutive quarter of earnings declines if this occurs. Negative guidance from companies continues to outpace positive guidance.

### Fixed Income Markets:

The fixed-income market traded in a very tight range last week ahead of the FOMC meeting. The markets appeared to take a wait-and-see approach. The 10-yr Treasury ended the week with a yield of 3.47%, moderately higher than the 3.69% it started the week at.

### Economic:

Following the previous week's hot May Jobs Report, the first signs of a slowing labor market emerged last week. Unemployment claims increased to 261,000; which is the highest level since October 2021<sup>2</sup>. The ISM Services PMI fell to 50.3 from the previous reading of 51.9. This indicates a slowdown occurred but remains above the important reading of 50 meaning the services portion of the economy remains in expansion territory.

## Looking Ahead

### Equity Markets:

We still believe that fundamentals and earnings will be the driving force for the markets going forward. We have yet to see an improvement in the fundamentals, with the S&P 500 trading at a forward P/E of 18.5x. This is above the 10-year average and in line with the 5-year average<sup>1</sup>. The earnings landscape has seen little improvement despite the better-than-expected results from the first quarter. With the higher rate environment, we believe that multiple expansion will be limited so a sustained move in the market will need to be supported by strong earnings.

The outlook of many market participants is very mixed. Despite the VIX being at a multi-year low there is a large divergence in market expectations. With this uncertainty, we believe an investor should have all of their bases covered, and the most appropriate way to do that is broad diversification. The market moves before the participants are prepared for the move. We believe volatility will return as the earning and economic numbers continue to come in mixed. We remain neutral and a move to the upside is as likely as a downside move. Developing an appropriate long-term strategy and implementing systematic rebalancing can help investors maneuver through market environments like we are currently in.

### Fixed Income Markets:

The FOMC will begin its policy meeting, culminating with Chairman Powell's press conference Wednesday afternoon. The markets are anticipating the Fed to keep rates at the current range, in what is now being called a "skip" rather than a "pause". The futures market has a 78% probability of no hike at the meeting, but a 54% probability of a 25 basis point hike at the July meeting<sup>3</sup>.

We think the market may be overly optimistic for a pause, and cuts later in the year, as inflation numbers have remained sticky. But, we do believe the majority of the work has already occurred with the historic pace of raises last year. The impacts of another small increase are likely to be limited and we still have the view that the high on the 10-yr Treasury in October will stand as the cyclical high.

### Economic:

The FOMC meeting will garner much of the attention but prior to the rate decision, we will have two important readings on inflation. Tuesday will be the release of the Consumer Price Index and Wednesday the Producer Price Index. To end the week, the retail sales report will give the market a view of the consumer, and June's preliminary University of Michigan Consumer Sentiment Index will be the final report of the week.

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

Sources:

1)FactSet  
[https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight\\_060923.pdf](https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_060923.pdf)

2)JH Investments  
<https://www.jhinvestments.com/weekly-market-recap#market-moving-news>

3)CME Group  
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

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