Week in Review

Equity Markets:

The S&P 500 finished the week up 0.7%, behind the DJIA rally of 2.1%. The NASDAQ fell 0.6% as investors pulled away from growth stocks in favor of their value counterparts[1]. Earnings season picked up last week. So far, 89 S&P 500 companies have reported. 73% have beaten earnings estimates, slightly higher than the long-term average of 66%, and 61% have beaten revenue estimates[2].

Second-quarter earnings are expected to decline 7.9% year-over-year. 6 of the 11 sectors are expected to see annual declines in earnings this quarter, led by the energy sector which is expected to see earnings decline by 48%. Full-year 2023 earnings estimates remain slightly positive at 0.8%[2].

Fixed Income Markets:

Treasury yields traded in a tight range all of last week ahead of the FOMC meeting Tuesday and Wednesday. The 10-yr treasury yield ended the week at 3.85%, marginally higher than it opened the week. The 2's/10's spread continues to be deeply inverted. After, a brief period of flattening, the spread currently stands at -1.01%.

The markets are anticipating a 25 basis point increase by the Fed this week. According to the Fed Fund's Futures Market, there is a 99% probability of the increase[3].

Economic:

The Conference Board's Leading Economic Index declined for the 15th straight month in June. This marks the longest streak of consecutive declines since 2007-2008[4]. Retail sales came in lower than expected, increasing by 0.2%. Despite the downward miss, the consumer remains resilient, May's reading was revised upward to 0.5% from the original report of 0.3%. The NAHB Housing Market Index rose to 56 this month. This marks the 7th consecutive positive reading which could mean that the housing market has settled into the new rate environment. The existing home sales report showed that a supply shortage remains. Currently, there is a 3.1-month supply of homes; a six-month supply is considered to be a balanced market between buyers and sellers[5].

Looking Ahead

Equity Markets:

This week will be a busy one for earnings. 173 S&P 500 companies will be reporting. Analysts continue to remain bearish on earnings despite the better-than-expected earnings results reported so far. Earnings declines continue to be pushed further out on the calendar. Third-quarter earnings estimates now are for growth of only 0.8%, much lower than the 5.5% expectations coming into the year[2].

The majority of the rally has occurred due to multiple expansions. The forward four-quarter P/E ratio for the S&P 500 currently sits at nearly 19.5x. This is above the 5-year average of 18.6x and the 10-yr average of 17.4[6]. Valuations can remain elevated for long periods of time before normalizing but we believe that market fundamentals do matter and high valuations lead to increased risks within the market. Investors should remain properly diversified and stay committed to their target allocations to avoid chasing returns and leaving their portfolios vulnerable to potential market weakness. In the face of weakening economic numbers, declining earnings, and elevated sentiment, we believe investors should focus on the fundamentals and block out the "noise" just as we recommend when panic takes hold of the sentiment.

Fixed Income Markets:

The Fed is likely to increase rates by the 0.25% that the market anticipates. Fed Chairman Jerome Powell has navigated the inflation fight extremely well thus far, but inflation still remains above the target of 2%. After the meeting this week, the FOMC will not meet again until September, giving policymakers two months of data before making their next rate decision.

Like in previous weeks of the FOMC meeting, we anticipate an increase in volatility but don't expect the markets to move significantly from current levels. The futures market has priced in an increase for some time now so any major move is unlikely. We continue to have a positive outlook on the fixed-income markets as we believe the cyclical peak in rates occurred last October when the 10-yr yield reached 4.25%.

Economic:

This week will be a busy one with important economic reports and the Federal Reserve Monetary Policy Decision. Tuesday, the Consumer Confidence Index will be released. The first estimate of second-quarter GDP will be released on Thursday. To finish the week, The Personal Consumption Expenditures Price Index will be released. The PCE is the Fed's preferred inflation gauge. Also, on Friday, the University of Michigan Consumer Sentiment Index will be released.

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

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Sources:

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

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