Week in Review

Equity Markets:

The markets reversed the trend from the prior week and had a strong rally, heavily fueled by the better-than-expected inflation reports. The NASDAQ finished the week up 3.3%, extending its YTD gain to 35.5%. The S&P 500 finished the week positive by 2.4% and is up 18.4% YTD. The style trend for the year continues with Large Cap Growth up 31.7% YTD with its counterpart, Large Cap Value, only up 6% YTD[1].

Earning season started to build steam last week with some of the major banks releasing their earnings. So far, only 6% of S&P 500 companies have reported earnings but results have come in better than expected. 80% have reported earnings above estimates and 66.7% have beaten revenue estimates[2].

Fixed Income Markets:

Yields plummeted last week as bond prices rallied following the CPI and PPI reports. The 10-yr treasury yield closed the week at 3.82%, 23 basis points lower than the prior week. Bonds across the yield curve rallied on the hopes of slowing policy action from the FOMC.

Despite the upbeat inflation reports, the Fed Funds Future Market saw little change. The futures market is pricing in a 96% probability of a 25 basis point increase at the FOMC meeting next week[3].

Economic:

Inflation continued its downward trend in June. CPI came in at 3% year-over-year, the lowest level since March 2021. The PPI, which is often seen as a leading indicator for the future of inflation, came in at 0.1% month-over-month. Both of those numbers were slightly better than economists' estimates. July's preliminary University of Michigan Consumer Sentiment Index rose to 72.6; the highest level since September 2021

Looking Ahead

Equity Markets:

Earnings season will pick up steam this week with 13% of S&P 500 companies reporting. Despite strong early reports, estimates ticked down last week. Earnings growth for the second quarter is expected to be -8.1%, down from the -5.7% estimate on July 1[2]. The S&P 500 is currently trading at 19.6x times the next 12 months of projected earnings. Valuations are starting to get extended and better-than-feared earnings results will likely need to happen to see a sustainable push higher.

It is just as important for investors to remain focused on the long term when the environment has a positive sentiment as it is when it is negative. We believe in staying disciplined to a thoughtfully developed, diversified target allocation not only helps capture market pivots but can also protect against unseen market volatility.

Fixed Income Markets:

The last few weeks the fixed-income markets have seen large moves in yields. When the Fed meets next week and ultimately makes the decision on the next interest rate move, there could be some short-term volatility but we believe the market has priced in the anticipated 25 basis point increase. We could see the 10-yr yield tick up near the 4% mark again, but we still see the yield creeping down to the 3-3.25% range over the next 12-18 months. The challenging macro backdrop and the likely end to the Fed's tightening cycle should be a tailwind for the bond market.

Economic:

The housing market will have multiple reports this week. On Tuesday, the NAHB will release the Housing Market Index, followed by Housing Starts, and the National Association of Realtors' existing home sales report will be released on Thursday. Other notable reports will be the retail sales report on Tuesday and The Conference Board's Leading Economic Index 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)I/B/E/S Refinitiv
https://lipperalpha.refinitiv.com/wp-content/uploads/2023/07/TRPR_82221_706.pdf

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