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## Week in Review

*Equity Markets:*

The markets ended the week strong on Friday following the comments from the Jackson Hole Summit. The S&P 500 ended the week up 0.8%. The NASDAQ surged 2.3%, fueled by robust earnings reports from companies in the technology sector. The growth-to-value performance spread widened last week. Large-cap growth is up 27.8% year-to-date while Large-Cap Value is up a meager 4.4%[1]. The outperformance has been dominated by a handful of names in the Technology Sector and marks a reversal from the second worst performing sector in 2022.

With only a handful of companies having not reported earnings, for the second quarter in a row, results have been much better than feared. Quarterly earnings are expected to decline by 3%. At the beginning of the quarter, earnings estimates were predicting a decline of 5.7%[2]. 79.4% of companies have beaten earnings estimates and 63.4% have exceeded revenue estimates[2].

*Fixed Income Markets:*

Chairman Powell's comments at the Jackson Hole Summit sent short-term yields up as the market fears that more rate hikes could be on the table. Policymakers continued with the hawkish tone stating that there are still concerns that inflation has not been tamped out. Despite the improving inflation readings over the past few months the chairman cautioned the markets stating that the Fed is prepared to raise rates further if improvement stalls. The 2-Year Treasury finished the week at 5.03%, the highest level since early March.

The long end of the curve remained flat and the inversion between the 2's/10's widened to -0.83%. The 10-Year Treasury ended the week yielding 4.23%. The Fed Fund's Futures market increased its probability of a 25 basis point increase in September slightly following the Chairman's comments. The probability increased to 21.5% from a 14% probability a week prior[3].

*Economic:*

Existing home sales were down 16.6% year-over-year according to the National Association of Realtors report[4]. New home sales rose in July, up 31.5% year-over-year. With mortgage rates near a two-decade high and existing home inventory limited, new construction homes have seen a heavy demand increase. The S&P flash PMI readings came in soft. The Manufacturing PMI fell to 47 while the services PMI came in at 51. A reading below 50 indicates business activity is in contraction. The final reading for August's University of Michigan Consumer Sentiment Index fell to 69.5 from the initial estimate of 71.2. Consumers cited increasing inflation concerns which contributed to the downward move[5].

## Looking Ahead

*Equity Markets:*

Analysts have begun to reverse course and begin to upwardly revise their earnings estimates. Q3 earnings are expected to grow 1.9%, up from 1.3%[2]. Also seeing upward revisions are full-year 2023 earnings at 2.2%. Market participants have been pessimistic the entire year, but corporations continue to demonstrate their resilience. The historically healthy position companies found themselves in following the pandemic has proved to be the key for companies to navigate the difficult inflationary environment over the past 18 months. We find it interesting that revenues exceeding expectations have been lower than in recent quarters and earnings beats are exceeding both historical and recent averages. We believe this is in large part due to the 20-year high in profit margins coming out of the pandemic. Profit margins were near 14% and have experienced some compression, currently at 11.8%[6], which is still historically strong. Consumers have begun to tighten their budgets, and it will be important for companies to have tight controls on input costs for continued positive earnings surprises.

The market still sits roughly 8.5% below its intraday high that occurred on January 2, 2022. The market continues to see mixed singles from an economic perspective and a disparity between actual earnings results and expected. As long-term investors, we believe it is important to remind ourselves that we invest with a multi-year perspective. Going back to 150 years, investors in the US would have experienced a negative return 10% of the time on a rolling 5-year basis, less than 3% of the time on a 10-year basis, and would have had a positive return 100% of the time on a 20-year basis[7]. Having a proper asset allocation that matches your risk profile is imperative to being able to navigate volatile times. If history is any guide, we know only a few truths of the stock market. It goes up and down in the short term but ultimately goes up over the long run.

*Fixed Income Markets:*

The 10-Year Treasury Yield quickly retreated from the cycle highs of 4.3%+. It is our belief that short-term jumps like the one that occurred will be short-lived and present attractive long-term opportunities for fixed-income investors. We believe secular deflationary factors will continue to put downward pressure on rates, despite upward pressure from inflation and policy rates. Some of these factors include an aging demographic that will have a greater need for fixed-income instruments, national debt levels and future interest expenses, and disruptive technology which most recently includes Artificial intelligence.

*Economic:*

This week has a full docket for economic reports. The labor market will see important releases with the Job Openings and Labor Turnover Survey (JOLTS), ADP Employment Report, and the Non-Farm Payroll Report being released. But, the headline report for the week will be the Personal Consumption Expenditure Price Index.

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

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*Sources:*


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*https://lipperalpha.refinitiv.com/wp-content/uploads/2023/08/TRPR_82221_712.pdf*

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