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WEEKLY MARKET RECAP | September 5, 2023

Week in Review

Equity Markets:

A late monthly rally was not enough to push the S&P 500 positive for the month of August. The S&P ended the month down 1.8%, snapping a 5-month string of positive results. The energy sector was the only one to finish the month positive, despite a 47% decline in year-over-year earnings growth[1]. Last week saw the Growth/Value spread increase with Large-Cap Growth finishing the week up 3.4%; while its Value counterpart had a 1.9% increase[2]. Year-to-date Large-Growth is up 32.2% and Large-Value is up 6.4%[2].

Second-quarter earnings reports are coming to an end with 99% of S&P 500 companies having already reported. Overall, results have handily exceeded expectations. 79% of companies have beaten earnings estimates and are showing a modest decline in earnings of 2.9%. Going into the quarter, estimates were for an earnings decline of 5.7%[1]. Third-quarter earnings estimates have been slightly revised up to growth of 1.8%. The estimate on July 1st was for earnings growth of 1.3%

Fixed Income Markets:

Yield curve steepening happened in a significant way last week. After the release of softer labor market reports and the GDP revision, intermediate-term growth expectations were brought to light. The 2-year Treasury Yield dropped to 4.89%, finishing below the previous week's close of 5.03%. The 10-year Treasury saw a much more muted week, closing 0.07% lower at 4.18% as investors' near to intermediate-term expectations regarding growth have slowed with softer economic reports.

Economic:

The labor market reports showed a consistent trend of cooling. The JOLTS report started the week off. In July, there were 8.83m job openings, falling short of the 9.47m that was expected. The unemployment rate rose 3.8%, largely due to the increase in the labor force participation rate increasing to 62.8%, which is the highest reading since the onset of the Covid-19 pandemic. The non-farm payrolls report came in slightly higher than expectations. The economy created 187,000 jobs in August, compared to the 170,000 estimated by economists. The slight beat accompanied downward revisions from June and July. All of the signals point to a cooling labor market, albeit still strong from a historical perspective. The PCE report on Wednesday showed that inflation still remains resilient. July's reading came in with a 3.3% increase year-over-year and the core PCE, which excludes food and energy, rose 4.2%. The second GDP revision for Q2 was released last Wednesday. The report saw a downward revision to 2.1% from the initial estimate of 2.4%.

Looking Ahead

Equity Markets:

Earnings estimates have begun to stabilize over the past few weeks. Analysts had a very pessimistic view of the markets coming into the year and they continued to push that point of view further out on the calendar rather than revise their previous assumptions. Recently, market analysts have begun to pull back their pessimism in the face of resilient economic and corporate earnings readings.

After nearly a year of recessionary calls by market participants, the rhetoric has recently shifted to a no-recession scenario. We have remained in the camp of potential economic weakness will come, but the timing was uncertain. Our opinion that market valuations and fundamentals will be the driving force of the markets remains. Economic conditions and market results have some correlation, but investors should also remember that the correlation is far from perfect. The cyclical bull market starts, on average, 6-9 months before a trough in earnings and 3-6 months before a trough in PMIs[3].

As long-term investors, we believe that a prudent allocation is the foundation for long-term success. Conviction to this allocation should remain during times of market stress as well as times of market exuberance. We believe the long-run success mounts to probabilities. During times of market panic, the risk/return profile is skewed to the upside, and during times of market exuberance the risk/return profile is skewed to the downside. Over the long run, there are very few truths in the market; 1: The market goes up and down in the interim, and 2: (Historically, so far) The market goes up in the long run. We believe that reaching investor goals starts with defining risk, prudent portfolio allocations, and prudent portfolio diversification.

Fixed Income Markets:

The 10-year Treasury yield has seen a swift decline from the cyclical high of 4.36% and ended the week on selling pressure, nonetheless, at 4.18%. The Fed's fight against inflation has been a long one but has proven to be effective thus far. Core PCE in July rose 4.2%. This is still well above the Fed's target of 2% but remains on the downward trend from 5.4% in February of 2022. We believe the Fed is in the final innings of its fight against inflation. We believe short-term bouts of volatility in the bond market could still occur but the secular high in rates has been put in. The recent sell-off in the market presents attractive long-term opportunities for fixed-income investors. The current market presents attractive yields, and in the face of a slowing economic environment; high-quality fixed has the potential to provide investors with attractive negative correlation benefits as well.

Economic:

The holiday-shortened week is accompanied by a light economic calendar. The ISM Services PMI will be released on Wednesday. On Friday, a consumer credit report will be released by the Federal Reserve.

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

Sources:

1)JI/B/E/S Refinitiv
https://lipperalpha.refinitiv.com/wp-content/uploads/2023/09/TRPR_82221_713.pdf

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

3)Goldman Sachs
https://www.goldmansachs.com/intelligence/pages/gs-research/bear-repair-the-bumpy-road-to-recovery/report.pdf