Week in Review

Equity Markets:

The S&P 500 fell 1.26% for the week. Fears of continued inflationary pressures have investors concerned about the future of interest rates. Contributing factors include the strong Service PMI report, which included a surprising increase in prices paid, and the 30% run in oil since June. Large-cap growth continued its outperformance last week by ending down 1.2% compared to its counterpart Large-Cap Value down by 1.4%[1].

99% of S&P 500 companies have reported quarterly earnings. Of those that have reported, 78.7% have reported earnings above analysts' estimates, and the quarterly earnings decline is expected to be -2.9%[2]. Going into second-quarter earnings analysts expected a decline of 5.7%. Despite the better-than-expected results, it marks the third consecutive quarter of negative earnings[3].

Fixed Income Markets:

The bond market had a largely uneventful shortened holiday week of trading. The 10-Year Treasury was little changed and finished the week yielding 4.26%. A better-than-expected PMI report pushed short maturity yields higher as heightened investor concerns of the Fed continuing rate hikes. After pushing above 5% midweek, the 2-year yield finished modestly higher on Friday at 4.97%.

Volume was light as the market looked ahead to the important inflation reports this week and the FOMC policy meeting that starts on Tuesday of Next week.

Economic:

The ISM Services Sector PMI rose for the eighth consecutive month to 54.5; well ahead of the 52.5 reading that was forecast[4]. The services sector suffered a slower recovery following the pandemic where consumers emphasized the purchase of goods. Weekly unemployment claims came in at 216,000; lower than the 230,000 expected. These weekly numbers can be volatile, but still point to a strong labor market.

Looking Ahead

Equity Markets:

As second-quarter earnings reports come to a close, our focus has shifted to company preannouncements and analysts' expectations for upcoming quarters. Third-quarter earnings estimates have continued to tick up and as of the close of last week stood at 2.0%. This is up from the 1.3% estimate on July 1[2]. This is a small improvement, but after months of downward revisions, a stabilization in earnings could be in sight. Earnings preannouncements for the S&P 500 have come in stronger than recently. So far, 45% out of 150 that have preannounced third-quarter earnings have come in positive. This exceeds the second quarter of 2023 number of 35% and the third quarter of 2022 number of 43%.

Analysts entered the year very pessimistic, along with most investors, but corporations' profit margin and consumer spending resilience have been key factors in keeping the earnings picture stable. We still believe challenges remain for the markets. Higher rates for longer are not a tailwind for corporations or consumers. However, this does not necessarily point to a steep market decline but does mean that earnings growth is likely to be slower for longer. Prudent diversification amongst styles, sectors, and market capitalization should position investors to capitalize on shifts within the market as it navigates a higher-rate environment.

Fixed Income Markets:

Last week we saw subdued volatility, but we do not anticipate that will continue through the rest of the month. Not only will we receive inflation reports this week, but there is also a large treasury auction that could put upward pressure on rates. The Fed Funds futures market has a 93% probability that the Fed will keep rates at the current level next week[5]. Despite a high probability, there will likely be heightened volatility near the decision.

With all of these factors coming together we believe a retest of the cycle high on the 10-year yield of 4.36% is possible. If that level is tested, we see it being short-lived and presenting an attractive opportunity for fixed-income-oriented investors.

Economic:

Following a light week for economic reports, this week will be watched closely. The headline reports for the week will be the CPI report on Wednesday; followed by the PPI report on Thursday. With the FOMC meeting taking place next week, these reports have the potential to impact the markets in a major way if they come in far from forecasts. The health of the consumer will also garner attention with the retail sales report to be released on Thursday. To finish the week, the Preliminary University of Michigan Consumer Sentiment Index will be released.

**** *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/2023/09/TRPR_82221_714.pdf

3)Yardeni Research, Inc.
https://tradingeconomics.com/united-states/non-manufacturing-pmi

4)Trading Economics
https://tradingeconomics.com/united-states/non-manufacturing-pmi

5)CME Group
https://tradingeconomics.com/united-states/non-manufacturing-pmi

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