

Week in Review

Equity Markets:

The current earnings season is recognizing broad, robust individual company performance that is furthering US stock markets to new highs. The S&P 500 gained 2.36% last week; and while the Dow Jones Industrial Average appreciated by only 0.25%, the Nasdaq marketplace rocketed ahead with 4.52% weekly growth.¹

These gains are being led by earnings, with 89% of the S&P 500's component companies already reporting. We are seeing a blended year/year earnings growth rate of 27.7%, a high not seen since the Fourth Quarter of 2021. The Forward 12-month Price/Earnings Ratio for the S&P 500 has risen to 21.0, which is ahead of both its 5-year average [19.9] and its 10-year average [18.9]. Almost 85% of reporting companies beat Wall Street's earnings expectations on them, with the magnitude of the beats at about 19%.²

Fixed Income Markets:

Bonds appreciated within a relatively tight range, doing so amidst continued geopolitical instabilities and their impact upon the price of oil. Yields on the 10-year Treasuries read in at 4.36%, having contracted by 2 basis points last week. The 30-year Treasury ended the week at 4.94%, down 3 basis points after seeing its yield rise in the middle of the week to 5.00%, a 10-month high.³

The Bloomberg Aggregate Bond Index generated a 0.26% return last week, alongside a 0.20% gain in the Bloomberg Municipal Index. Investment-Grade Corporates appreciated by 0.38% while High-Yield Corporates rose by 0.05% with spreads at 266 basis points.⁴

Economic Updates:

Nonfarm Payrolls increased by 115,000 new jobs in April, its second straight month of growth, indeed the strongest two-month period for this metric since 2024. Another employment metric is the Challenger Layoffs report from Challenger, Gray & Christmas, which indicated a 21% year/year decrease in total layoffs while still going up 38% month/month in April.⁵ The indications are that the labor markets are stabilizing, which perhaps could indicate interest rates could remain elevated for longer.⁶

The University of Michigan's Surveys of Consumers saw US consumer sentiment fall to 48.2, a new all-time low with one-third of survey respondents mentioning higher gasoline prices and higher costs driven by tariffs. The juxtaposition is very important: we are seeing all-time lows in consumer sentiment at the same time as we are recognizing all-time highs for the stock markets.

Looking Ahead

Equity Markets:

The current earnings season continues this week even as the majority of publicly traded US companies have already reported. Positive earnings momentum has furthered broad stock market appreciation, and the recent pace of equity outperformance looks set to continue this week. The potential exists for our current stock market rally to continue, recognizing that we have been positive for the past six weeks in a row.

Geopolitical events this week could greatly impact stock market performance. The Iran War [Operation: Epic Fury] continues, with the current ceasefire likely to falter.⁷ This comes as the President's latest round of tariffs were rejected by the US Court of International Trade. The upcoming week also will see US President Donald Trump meet with Chinese President Xi Jinping in Beijing, a summit between the world's two largest economies with hopes for new trade and commerce amidst a backdrop of uncertainty and conflict.⁸

Fixed Income Market

Market stresses have kept Treasury yields modestly lower than they would otherwise likely be. Perhaps the biggest consideration is what will happen to the Key Rate (Fed Funds rate) following the end of Jerome Powell's term as Fed Chair and the anticipated ascendancy of his named successor, Kevin Warsh. This past week's employment numbers show stability in the jobs market, one-half of the Fed's dual mandate alongside keeping inflation at a target rate of 2.0%. Currently, inflation is quite higher than that figure, with new metrics this week providing more insight into it.

Continued geopolitical uncertainty could drive instability in fixed income investments. Investors should consider a potential increase in Treasury yields likely if we see an increase in the price of crude oil.

Economic Updates:

Tuesday sees the announcement of April's Consumer Price Index, which will indicate the pace of US inflation following its recent spike driven by the costs of war. Other important announcements this week include Existing Home Sales, the Import and Export Price Indices, Retail Sales, Industrial Production, and the Federal Budget Balance for April.⁹

**** See Important Disclosures on following page

Sources:

- 1) JP Morgan Asset Management
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- 9) LPL Research
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