

Week in Review

Equity Markets:

US stock markets gave up some of the recent gains recognized over the past two weeks' worth of positivity. The S&P 500 Index recognized a loss of (-1.55%) last week while the Dow Jones Industrial Average gave up (-0.93%) and the Nasdaq lost (-2.90%).¹ This brought the Forward 12-Month Price/Earnings Ratio for the S&P 500 down to 20.3, still ahead of both its 5-Year Average of 19.9 and its 10-Year Average of 19.0. This is all despite broadly positive announcements as we begin the Earnings Season for the Second Quarter.²

Two major factors impacted stock market performance last week. First, there's a continued decline in the Semiconductor Industry. Increased market volatilities that largely emerged in the South Korean markets have begun to impact their trading in the US exchanges.³ Second, increased geopolitical tensions arising from the Iran War have led to the tentative ceasefire mutually negated. Offensive attacks have resumed, leading maritime traffic across the Strait of Hormuz to largely stop.⁴

Fixed Income Markets:

Treasury yields contracted slightly last week amidst an apparent cooling of inflation, indicating a reduced likelihood of the Federal Reserve raising interest rates in the near term. The 10-Year bond's yields fell one basis point while both the 2-Year and the 5-Year recognized declines by three basis points. The Bloomberg Aggregate Bond Index gained 0.13% last week. Investment-Grade Corporates delivered a 0.07% return while High-Yield Bonds appreciated by 0.03%.⁵

Economic Updates:

Both the Consumer Price Index and the Producer Price Index came down, indicating domestic inflation may finally be slowing down. Headline CPI fell 0.4% in June, bringing the Inflation Rate to 3.5% from 4.2%. Core CPI remained unchanged month/month and fell to 2.6% year/year. June's PPI fell 0.3%, beating expectations to have held. Core PPI rose by only 0.2%, besting expectations for a 0.4% increase. Note that both the CPI's and the PPI's reductions were each largely impacted by falling Energy prices, brought on by the now-negated ceasefire in the Iran War.⁶

Consumer Sentiment rose in June, as measured by the University of Michigan's Surveys of Consumers. Concurrently, Retail Sales rose by 0.2% in June, showing the resiliency of the US consumer. Still, Pending Home Sales came down 5.4% last month, indicating an apparent barrier to overall economic satisfaction.

Looking Ahead

Equity Markets:

Earnings Season for the Second Quarter continues, with nearly 80 companies set to announce their results. So far, we have seen 88% of reporting companies beat Wall Street's earnings expectations while 85% beat revenues expectations. More positive results will likely further robust market performance.

However, the Iran War remains a key variable. US forces engaged Iranian positions for the ninth consecutive day following deaths from missile & drone strikes at Jordan over the past weekend. Iran continues to hit our allies throughout the Middle East. Today, the Iranian-backed Houthi rebels in Yemen announced they would block the Red Sea at the Gulf of Aden, expanding the war to the western side of the Arabian Peninsula.⁷ This has led US gasoline prices to rise back up to an average of \$4.00/gallon.⁸ Indeed, the resumption of the Iran War could negatively impact the broader markets. Investors should remain mindful of this as they consider their risk tolerances amidst a dynamic geopolitical environment.

Fixed Income Market

Investors can anticipate interest rates to remain relatively rangebound, based on competing factors. On one hand, the cooling inflation apparent in both the CPI and PPI reports decreases the likelihood that the Federal Reserve will be compelled to raise the Key Rate (Fed Funds rate) as the Federal Open Market Committee meets later this year. However, the increased geopolitical tensions will likely impact the Energy sector towards the downside, with disruption of crude oil and natural gas supplies amidst maintained high global demand. Should this happen, we can expect higher prices for Energy, which could increase domestic inflation, thus increasing pressure on the Federal Reserve to act.

Economic Updates:

Reports to be released this week include US Leading Indicators, New Home Sales, Building Permits, and the S&P Global Purchasing Managers Indices for Manufacturing, Services, and Composites.⁹ As well, the European Central Bank will announce their decision on interest rates on the Euro.

**** See Important Disclosures on following page

Sources:

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