

Week in Review

Equity Markets:

The major US stock markets were down for a second week in a row. The S&P 500 Index recognized a weekly loss of (-1.66%) while the Dow Jones Industrial Average took a loss of (-1.58%) and the Nasdaq gave up (-2.88%).¹ These falling prices led the Forward 12-Month Price/Earnings Ratio for the S&P 500 to retract down to 20.1, which is still above both its 5-Year [19.9] and 10-Year [19.0] Averages.²

Two primary factors are to blame for the stunted broad stock market performance last week. First, oil prices rose to touch \$100/barrel as the Iran War escalated and expanded towards the Red Sea. Alongside that variable has been increased investor shakiness towards the Technology sector, specifically upon anticipated returns on Artificial Intelligence.³

Fixed Income Markets:

Rising oil prices furthered fears over inflation. That led to growing concerns over interest rates, which in turn negatively impacted bond performance last week in a pivot away from the prior week's gains. Yields on US Treasuries 'bear-flattened,' with the 10-Year rising 13 basis points to 4.68%. The Bloomberg US Aggregate Bond Index came down (-0.74%) last week. Investment-Grade Corporates gave up (-0.92%) while High-Yield Bonds lost (-0.57%). Let us keep in mind that these broad declines were more tied to these growing fears over interest rates rather than a deterioration of broader credit conditions.⁴

Economic Updates:

The White House refocused their tariff regime this past Friday with the imposition of Section 301 of the 1974 Trade Act. Alleging the acceptance of goods made by forced labor, these levied a 10%-12.5% consumption fee on goods from 60 of our country's trading partners. This accounts for 99.6% of what we import. These new tariffs were initiated following the termed expiration of the previous tariffs. In addition, new tariffs were issued upon Brazil and Canada. All these new tariffs follow the US Supreme Court's decision that the White House's prior tariff regime was unconstitutional.⁵

The S&P Global Flash US Composite Purchasing Managers' Index [PMI] rose to 53.6 in July. This is an eight-month high for PMI, led by the Services sectors of the economy, but also portends a warning over intensifying price and supply pressures. Also last week, Initial Unemployment Applications came in at 187,000, which is the lowest weekly reading this metric has seen since 1969.

Looking Ahead

Equity Markets:

Earnings Season for the Second Quarter has so far recognized 27% of the S&P 500 having reported, including more than 80 S&P 500 components that announced results last week. The current earnings season continues this week with 177 S&P 500 companies, more than a third of the entire Index, scheduled to announce their performance.

This Earnings Season has overall delivered robust performance announcements. So far, 86% of these companies have delivered a positive EPS surprise, and 80% have reported a positive Revenue surprise. The quality of these announced returns lifted analyst projections for the blended year/year earnings growth rate for the S&P 500 up to 37.9%. Should that hold, it would be the highest this rate has been reported since the 40.3% growth rate recognized in the Third Quarter of 2021.

Fixed Income Market

All eyes are on the Federal Open Market Committee as it meets this week, its first session under new Fed Chair Kevin Warsh. Expectations are that the new Chair will tout how policy actions shall be fully dependent on incoming inflation and employment data. CME Group's FedWatch tool reflects 64% confidence that the FOMC will hold the Key Rate (Fed Funds rate) at its current level of 3.50-3.75%, with 36% anticipating a 25 basis point hike in interest rates.⁶

Meanwhile, this new week begins with fresh hopes for the wars in the Middle East to subside towards diplomatic resolution. These hopeful indications already have brought down the price of oil, pushing back on fears over inflationary pressures, and broadly benefiting domestic fixed income investments.⁷

Economic Updates:

Personal Consumption Expenditures will be announced this week. We recognize that Core PCE remains the Fed's preferred metric for gauging inflation. Also, that PCE will be announced the day after the FOMC's meetings on interest rates. Other announcements to be made this week include Durable Goods Orders; Capital Goods Orders; Consumer Confidence; Retail & Wholesale Inventories; the S&P Case-Shiller Home Price Indices; and the final Consumer Sentiment figures from the University of Michigan.^{8,9}

**** See Important Disclosures on following page

Sources:

- 1) JP Morgan Asset Management
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