

Week in Review

Equity Markets:

The broader US stock markets gained for the week despite significant volatilities leading to major price swings. The S&P 500 Index ended the week with a 1.06% gain. Following a thousand-point single-day point swing, the Dow Jones Industrial Average finished last week up 1.04%; meanwhile, the Nasdaq gained 1.60%.¹ The Forward 12-Month Price/Earnings Ratio for the S&P 500 fell to 19.6, which is below its 5-Year Average [19.9] while still above its 10-Year Average [19.0].²

Strong earnings announcements led to robust market performance to end a precarious July. This past month saw the S&P 500 decline by (-0.1%), its second consecutive slightly negative month. The Dow Jones Industrial Average gained 0.3% in July to post its fourth positive month in a row. However, the Nasdaq declined by (-3.2%).³

Fixed Income Markets:

The Federal Reserve's Open Market Committee voted 9-3 to keep the Key Rate (Fed Funds rate) at its current level of 3.50%-3.75%. The 3 dissenting votes were cast to raise rates by a quarter point out of fears over persistent inflation above the Fed's target rate of 2%.⁴

Bonds reacted with a bear-steepening. The 10-Year Treasury's yield rose 6 basis points to 4.74%, the highest it's been in a year and a half; concurrently, the 30-Year's yield rose 12 basis points to 5.27%, its highest level since 2007. The Bloomberg US Aggregate Bond Index generated a (-0.12%) loss last week. Investment-Grade Corporates gave up (-0.06%) while High-Yield Bonds gained by 0.18%.⁵

Economic Updates:

Personal Consumption Expenditures showed inflation cooling but remaining elevated. Headline PCE fell 0.1% in July while up 3.7% year/year. Core PCE, the Fed's preferred metric for inflation, rose 0.1% for the month and is up 3.3% year/year.⁶

US Gross Domestic Product grew at a 1.5% annualized rate in the Second Quarter, down from 2.1% seen in the First Quarter. This decline was market by reduced government spending and slower growth in both investments and exports relative to a surge in pricey imports – namely, semiconductors.

Looking Ahead

Equity Markets:

Stock markets are beginning this week with a broad-based rally as the current Earnings Season continues. 136 S&P 500 companies are set to report this week, including 5 components of the Dow Jones Industrial Average.

With 61% of S&P 500 companies having already reported, we see 86% have generated a positive Earnings surprise while 77% have delivered a positive Revenue surprise. The current blended year/year earnings growth rate for the S&P 500 stands at 47.4%. Should this hold, it will be the highest reported growth rate for a quarter since 2Q 2021.

Fixed Income Market

The hawkish nature of last week's Federal Open Market Committee meeting furthers the belief that the Federal Reserve will raise interest rates at their next meeting. CME Group's FedWatch tool currently shows that two-thirds of its respondents anticipate a 25 basis point rate hike when they reconvene in September.⁷

Bond investors should consider the price of Crude Oil, as its rising prices have been a primary cause of domestic inflation. The understanding is that, should there be a greater peace in the Iran War and broader Middle East, then we should expect a reasonable decline in Oil's year-to-date elevated prices, leading to decreased inflation from lower Energy prices, and subsequently calming the Federal Reserve's impetus to consider raising interest rates.

Economic Updates:

This week will see multiple employment reports announced. The most significant is the Nonfarm Payrolls report, from which the US Unemployment Rate is based, which will be announced this Friday. Other major employment announcements include July's Job Opening and Labor Turnover Survey (JOLTS) and the ADP Private Payrolls report.

Additional impending reports include the ISM Manufacturing & Services PMI announcements; Factory Orders for last June; and Preliminary Productivity for the Second Quarter.⁸

**** See Important Disclosures on following page

Sources:

- 1) JP Morgan Asset Management
<https://am.jpmorgan.com/us/en/asset-management/adv/insights/market-insights/market-updates/weekly-market-recap/>
- 2) FactSet Earnings Insight
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- 3) John Hancock Investment Management, LLC
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<https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html>
- 5) Nuveen, LLC
<https://www.nuveen.com/en-us/insights/investment-outlook/fixed-income-weekly-commentary>
- 6) LPL Research
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- 7) CME Group
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>
- 8) Charles Schwab
<https://www.schwab.com/learn/story/stock-market-update-open>

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