

Week in Review

Equity Markets:

U.S. stock markets delivered modest gains last week following the previous week's fractional declines, with the S&P 500 Index appreciating by 0.50%. The Dow Jones Industrial Average produced a 0.55% positive return while the Nasdaq gained 0.85%.¹

The S&P 500 Index's Forward 12-Month Price/Earnings Ratio now stands at 19.6. This puts it below the Index's 5-Year Average [19.9] while still above its 10-Year Average [19.0].² Some market observers have noted that a significant portion of the Index's earnings growth is concentrated among a relatively small number of companies. For example, the ten largest earners amongst its 500 component companies account for nearly two-thirds of the S&P 500's earnings growth for the year.³

Fixed Income Markets:

Fed Chair Kevin Warsh spoke last week at the Jackson Hole Economic Policy Symposium, his first overseeing the Federal Reserve. His speech focused on his intention to keep the Fed focused on being reactive to data, rather than acting ahead of economic reports, while increasing access to real-time data in their analysis. Chair Warsh also spoke on the Fed reducing its public communications, particularly on forward guidance. And he was hawkishly outspoken on the stickiness of elevated U.S. inflation and the need to work harder to return it to its 2% target.⁴

Chair Warsh's comments directly led to a flattening of the yield curve of U.S. Treasuries. While the 10-Year Treasuries saw their yields fall by 2 basis points to 4.72%, the 30-Year Bond came down 7 basis points to 5.21%, a considerable drop from last week. The Bloomberg U.S. Aggregate Bond Index posted a 0.13% gain. Investment-Grade Corporates rose by 0.32% last week, and High-Yield Bonds appreciated by 0.27%.⁵

Economic Updates:

Personal Consumption Expenditures rose in July: on a year-over-year basis, Headline PCE is up 3.7%, and Core PCE [minus food and energy costs] is up 3.3%. These are the Federal Reserve's preferred metrics for gauging inflation, and both are soundly above their 2% target. Concurrently, while Durable Goods orders rose a robust 1.1% in July, consumer confidence measures fell in major surveys by both the Conference Board and the University of Michigan.⁶

Looking Ahead

Equity Markets:

This August will likely close with moderate overall gains, marking the first month in three that the major U.S. stock market indices have posted gains. This week will see earnings announcements made by multiple Information Technology companies even as this Earnings Season has largely concluded.⁷

Geopolitical issues continue to complicate stock market returns. This week begins with renewed fighting in the Middle East, starting with Iran attacking two U.S. bases in Jordan. This was met by U.S. strikes on Iranian positions upon their islands in the Persian Gulf, alongside a pledge by President Donald Trump for further U.S. strikes. These attacks contributed to higher crude oil prices. Oil prices may remain sensitive to developments in the region.⁸ Alongside our new Trade War with Canada, these external disruptions are having more impact upon U.S. markets than otherwise.

Fixed Income Market

The hawkish tone of Fed Chair Warsh's comments has led some market participants to increase expectations of a potential September rate increase. Indeed, CME Group's FedWatch tool now considers the odds of such a rate hike at greater than two-out-of-three.⁹

Still, concerns about overall bond market viability were assuaged with last week's sound Treasury auctions. The indication is that the demand market for Treasuries remains strong, just price conscious.

Economic Updates:

The Nonfarm Payrolls announcement will be made on Friday. Along with other labor market data, it provides important insight into employment conditions and the Unemployment Rate. It also will be a primary consideration for the FOMC as it considers a potential interest rate hike. Other economic reports this week include the Job Openings and Labor Turnover Survey [JOLTS], the ADP Private Payrolls report, and the Challenger Layoffs report.

Beyond employment reports, major economic announcements this week include the S&P Global U.S. Manufacturing & Services Purchasing Managers Indices; the ISM Manufacturing & Services Indices; Construction Spending; Factory Orders; Durable Goods Orders; and the Trade Balance.

**** See Important Disclosures on following page

Sources:

- 1) JP Morgan Asset Management
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- 4) LPL Research
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- 8) CNBC
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- 9) CME Group
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

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