

Week in Review

Equity Markets:

The broader stock markets were mixed last week, with the S&P 500 delivering a negligible loss of (-0.06%). And while the Nasdaq marketplace generated a positive return of (0.73%) last week, the Dow Jones Industrial Average gave up (-1.65%), its worst weekly performance since last March.¹ The Forward 12-Month Price/Earnings Ratio for the S&P 500 has now come down to 19.1, which is below its falling 5-Year Average [19.8] while still just above its 10-Year Average [19.0].²

Equities were led this week by two factors: Oil and Artificial Intelligence. Continued fighting has curtailed free passage through both the Strait of Hormuz to the Persian Gulf and the Bab El-Mandeb Strait to the Red Sea, including the shutdown of the Saudi Aramco East-West Pipeline. All of this led to Crude oil rising to above \$100/barrel. Concurrently, the AI industry is recognizing continued momentum growth with major new deals progressing. This is despite recent calls within the industry to slow itself down.³

Fixed Income Markets:

The Federal Open Market Committee unanimously voted to raise the Key Rate (Fed Funds rate) by 25 basis points, bringing US interest rates up to 3.75%-4.00%. The hawkish sentiments of new Fed Chair Kevin Warsh indicated that the Federal Reserve, now under his leadership, will be extremely focused on bringing US inflation down to the Fed's 2% target rate. Further indications are that the FOMC is likely to raise interest rates by another 25 basis points before the end of this year.

The FOMC's actions led to a "bear-steepening" of the Yield Curve of US Treasuries, which had been rising prior to their announcements. Yields on US Treasuries rose throughout the week, with the 10-Year's yield rising to 5.00%. While the 2-Year Bills saw their yields rise 2 basis points, the 30-Year Bonds saw theirs fall by 3. Concurrently, the Bloomberg Aggregate US Bond Index gave up (-0.03%) last week. And as Investment-Grade Corporates gained 0.13%, High-Yield Bonds recognized a (-0.28%) loss.⁴

Economic Updates:

The FOMC's interest rate hike sent US mortgage rates higher, with the average 30-year fixed rate mortgage hitting 6.95%, its highest level since January 2025.⁵ Outside the US, the Bank of England decided to hold their interest rates at 3.75% while the Bank of Japan raised their interest rates a quarter-point to 1.25%, which is the highest it's been since 1995.⁶

Looking Ahead

Equity Markets:

Geopolitical events will be more prominent this week than otherwise. The United Nations General Assembly will take place in New York City; President Donald Trump is set to address the UNGA. Later in the week, the President will host a summit with Chinese President Xi Jinping, from which multiple trade and economic agreements should develop, ranging from tariffs to artificial intelligence.⁷ This is all in addition to the ongoing Iran War, the expansion of conflict between the Houthi rebels and Saudi Arabia, and the Russo-Ukrainian War. All these conflicts have a common factor: the disruption of global energy supplies.

Collectively, these events will directly and indirectly impact stock market dynamics, from raw materials sourcing to the vitality of global manufacturing supply chains. Therefore, developments on these issues should be monitored as they take place.

Fixed Income Market

The Federal Reserve's decision to hike interest rates provides investors with clarity on the issue from which better decisions can be made. Also, it is likely that the Federal Open Market Committee will raise interest rates at least one more time before the end of 2026. These actions take place amidst persistent uncertainties regarding oil prices, tariffs, technology spending, and fiscal policy.

Elevated yields present more attractive conditions for bond investors to consider. We would recommend investors speak with their Investment Advisors on this, to see how such opportunities correspond to their existing financial plans, and to revisit their acceptable risk tolerances.

Economic Updates:

Announcements scheduled for this week include the US Current Account Balance for the Second Quarter, New Home Sales, Building Permits, Durable Goods Orders, Capital Goods Orders & Shipments, and the Consumer Sentiment report from the University of Michigan. Other reports will be made by the Federal Reserve Banks of Kansas City, Philadelphia, and Richmond.

Perhaps the most significant financial announcement this week will be the S&P Global Purchasing Managers' Index [PMI] reports for Manufacturing, Services, and Composite. This is an important series of reports that sometimes gets overlooked for the ISM Manufacturing PMI report. The advantage of the S&P report is that it is considered more representative of total US manufacturing.⁸

**** See Important Disclosures on following page

Sources:

- 1) JP Morgan Asset Management
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- 4) Nuveen, LLC
<https://www.nuveen.com/en-us/insights/investment-outlook/fixed-income-weekly-commentary>
- 5) John Hancock Investment Management, LLC
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- 8) Charles Schwab
<https://www.schwab.com/learn/story/stock-market-update-open>

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