

Week in Review

Equity Markets:

It was a positive week for the markets with certain indices for large cap stocks at or near record highs. The S&P 500 Index recorded 1.17% growth last week. Meanwhile, the Dow Jones Industrial Average gained 0.96%, and the Nasdaq rose by 0.65%.¹ The Forward 12-Month Price/Earnings Ratio stands at 19.1, a reading which is even to its 10-Year Average while below its 5-Year Average [19.8].²

Large caps fared better than small caps last week, with the Russell 2000 Index down (0.90%). Indeed, the Russell 2000 has declined 5.7% over the past 5 weeks amidst fears of rising interest rates. By contrast, Russell's large cap index increased more than 1.5%.³

Fixed Income Markets:

Yields on US Treasuries expanded last week to highs not seen since 2002 before then falling back in on themselves as credit markets stabilized. By the end of the week, yields on the 10-Year Treasuries were at 5.24%, with the 2-Year Notes at 4.79% and the 30-Year Bond at 5.60%. The Bloomberg US Aggregate Bond Index appreciated by 0.39% last week. Investment-Grade Corporates rose by 0.48% while High-Yield Bonds gained 0.20%.⁴

This appreciation recognizes a reversal of five consecutive weeks of broadly negative performance for US Treasuries, with positive buying of new issues at last week's auction. And while one good week does not necessarily end a bear market, there were indeed indications of positive new purchases amidst broader trading.⁵

Economic Updates:

Minutes were released from the Federal Reserve's Open Market Committee meeting in September. The indication is that most policymakers currently anticipate another interest rate hike before the end of the year amidst persistent inflationary pressures. That said, any decisions would be data-dependent and are not pre-set.⁶

Consumer Sentiment, measured by the University of Michigan, hit a five-month low amidst stubborn inflation and rising interest rates. Concurrently, the New York Federal Reserve Bank's Survey of Consumer Expectations indicate forward expectations of 3.9% inflation, their highest reading since May 2023.

Looking Ahead

Equity Markets:

Earnings Season begins in earnest this week. Reporting on the Third Quarter's results begins with a particular focus given towards the Financial Services sector and the largest individual banks' announcements forthcoming, as well as certain non-US Information Technology companies.⁷

Earnings forecasts are high for US large cap companies. An analyst survey by FactSet has expectations for companies in the S&P 500 Index to generate an average earnings growth rate of 29.6%. Should this happen, it would be the third consecutive quarter of its earnings growth rate exceeding 25%.

Fixed Income Markets:

Last week's positive bond market activity indicates the potential for stabilization and the contraction of Treasury yields going into the Fourth Quarter. Much attention is being given to European sovereign bonds, recognizing their weakness while US bonds stabilize. And while the Federal Reserve has indicated a likelihood of an interest rate hike before the year concludes, the expectations are for it to take place at the Open Market Committee's December meeting rather than its October meeting.⁸

Keep in mind that we have a shortened week for bond trading, with fixed income markets closed this Monday for Columbus Day.

Economic Updates:

September's Consumer Price Index will be released this week, providing stronger insights into the state of domestic inflation. This will be a primary factor in the Federal Reserve's decision-making process for interest rates when they meet on October 28th.

Other announcements we will be watching for this week include the NFIB Small Business Optimism Index; Existing Home Sales; the Federal Budget Balance; Retail Sales; Import & Export Price Indexes; Industrial Production; Manufacturing Production; Capacity Utilization; and the Beige Book.

**** 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
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_100926.pdf
- 3) John Hancock Investment Management, LLC
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<https://www.nuveen.com/en-us/insights/investment-outlook/fixed-income-weekly-commentary>
- 5) LPL Research
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- 8) CME Group
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

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