

Week in Review

Equity Markets:

Volatile conditions defined this past week as the broader markets saw both rallies and retreats. The S&P 500 Index ended last week down (-0.46%). While the Dow Jones Industrial Average ended last week with a positive 0.42% gain, the Nasdaq fell back by (-0.71%).¹ The Forward 12-Month Price/Earnings Ratio for the S&P 500 is 18.7, below both its 5-Year Average [19.8] and its 10-Year Average [19.1].²

Earnings season for the Third Quarter is about a quarter of the way done, and the results so far have been largely positive. The blended year/year earnings growth rate for the S&P 500 is anticipated at 29.5%, indicating robust growth.³

Still, the selloff in Nasdaq last Thursday, and to a lesser extent that of the DJIA last Friday, portended to show a broader market momentum shift away from growth and towards value. The current focus is on the Technology sector, specifically the Artificial Intelligence industry. While strong consumption and demand has been recognized, the ever-increasing capital allocations towards its buildout have investors concerned.⁴

Fixed Income Markets:

Bonds recognized rallies last week as investors sought increases in quality over stock market volatility. The Bloomberg US Aggregate Bond Index rose 0.54%, marking its third positive week in a row.⁵ Investment-Grade Corporates appreciated 0.34% while High-Yield Bonds contracted by (-0.11%). Meanwhile, US Treasuries tightened across the yield curve, with the yield of the 10-Year Notes pulling back by 8 basis points as the 30-Year Bond recognized a 10 basis point yield contraction.⁶

Economic Updates:

Reports on the Housing industry indicate it is facing considerable economic pressures. These include the NAHB Housing Market Index falling to its lowest level since 2012, as well as the Pending Home Sales Index declining to its lowest level since its inception in 2001.

The S&P Global Flash US Composite Purchasing Managers' Index [PMI] delivered a slight month/month decline. Still, its reading of 57.6 remained above its 50-point threshold, indicating continued economic expansion.

Looking Ahead

Equity Markets:

This week sees 133 S&P 500 component companies reporting their earnings for the Third Quarter, including Technology companies critical to the growth of Artificial Intelligence. Wall Street will be looking at not just their earnings per share and revenues, but also their margins, demand, spending, guidance, and the monetization of Artificial Intelligence. Should these reports provide clear guidance that Artificial Intelligence is helping companies to operate more efficiently, then this should have positive implications for US Gross Domestic Product and broader economic & market growth.⁷

Domestic and Global affairs will continue to have an external effect on stock markets for the near term. The US Midterm Elections will take place next week, perhaps furthering market volatility until they are complete. Meanwhile, crude oil prices spiked last week amidst changing geopolitical instability in the Middle East as the Iran War appears ready to restart following Election Night.

Fixed Income Markets:

The recent rally in bonds reflects a growing shift towards safety by investors, correlating to decreased stock market exposure. Amidst this demand, the 10-Year Treasuries saw their yields retract from a high of 5.34% earlier this month – the highest yields seen in more than two decades – back down to below 5.00%.

The Federal Reserve's Open Market Committee meets this Wednesday. The CME Group's FedWatch Tool shows Wall Street is expecting the FOMC to hold interest rates at their current level of 3.75%-4.00% with 87% certainty, recognizing that the Federal Reserve has historically been reluctant to make interest rate changes before a national election. FedWatch, however, anticipates a 73% chance the FOMC will raise interest rates by 25 basis points when they meet in December.⁸

Economic Updates:

The upcoming week sees Personal Consumption Expenditures being announced. We recognize that the Federal Reserve considers Core PCE their preferred metric for gauging inflation.

Other announcements this week include Durable Goods Orders; Capital Goods Orders & Shipments; the FHFA House Price Index; New Home Sales; Advance Goods Trade Balance; Retail & Wholesale Inventories; Gross Domestic Product for the Third Quarter; and the Consumer Confidence report from the Conference Board.

**** 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/>
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- 4) T. Rowe Price
<https://www.troweprice.com/personal-investing/resources/insights/global-markets-weekly-update.html>
- 5) LPL Research
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- 6) Nuveen, LLC
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- 7) Charles Schwab
<https://www.schwab.com/learn/story/stock-market-update-open>
- 8) CME Group
<https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html>

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