Monday July 24, 2023

*SUMMARY-*

*I. Markets showing signs of broadening.*

*II. Key week of market-moving data upcoming.*

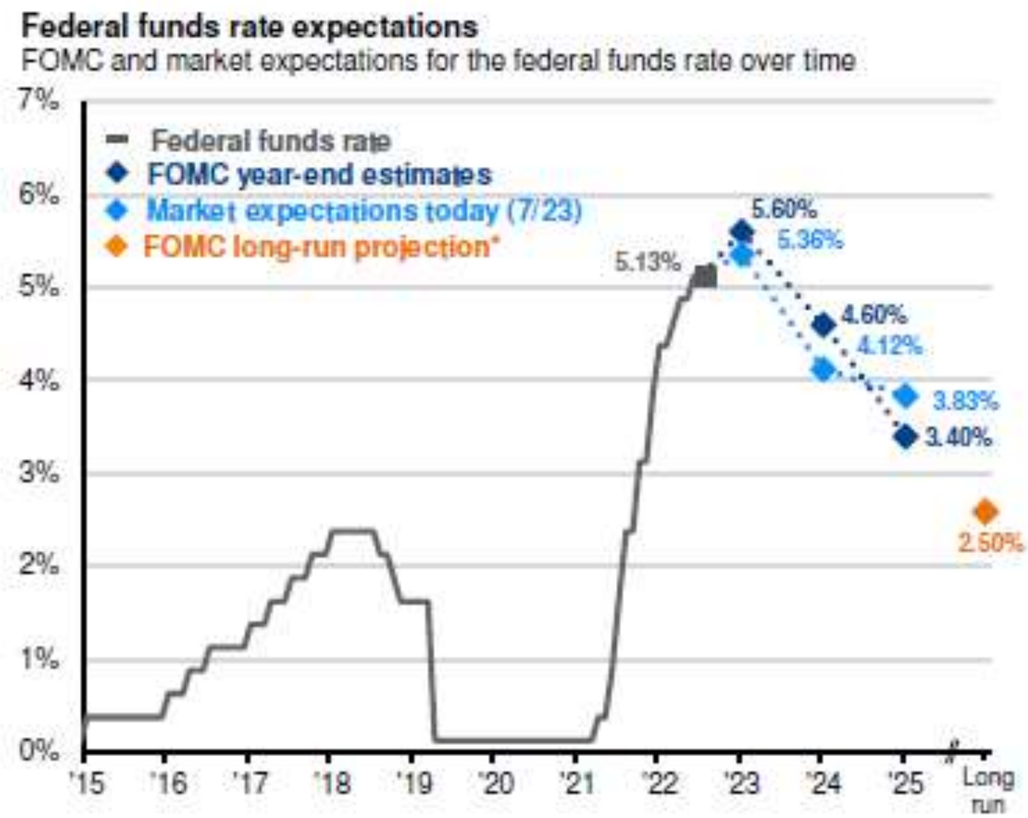
*III. Fed expected to hike on Wednesday.*

*IV. GDP and Consumer reports this week as earning season hits stride.*

Good afternoon:

Tech stocks took a breather last week after many months of dramatic outperformance compared to the rest of the market. In the most significant example of the broadening out that many market strategists have been seeking, the Dow Jones Industrial Average gained 2.13% and the Russell 2000 added 1.52% while the NASDAQ posted a loss of -0.57%. Leading the value sectors higher for the week were Energy, Healthcare, and Financials, all significant laggards YTD. This is precisely the type of broader participation that is needed to lend credibility to the market's move higher since last October's lows which has been predominately due to a handful of mega-cap technology companies.

This morning's opening is a continuation of positive momentum for stocks with the Dow outperforming once again as it attempts its eleventh straight winning session. However, the week will likely be dominated by three key factors: the Fed, economic data, and earnings reports. Despite inflation's sharp decline, the strong labor market and resilient consumer spending will likely result in the Fed resuming their rate increases after last month's pause. At this Wednesday's FOMC meeting, markets now expect the Fed to hike the Federal Funds rate another 0.25%.  We expect Chairman Powell's accompanying remarks to remain very hawkish suggesting further hikes will come if necessary.  However, the bond market believes the Fed is near the end of this tightening cycle and projects a series of Fed rate cuts in the coming two years.  This will almost certainly be the way our currently deeply inverted yield curve will normalize itself.




*Source: J.P. Morgan Asset Management*

Last week's reported June retail sales gain of 0.2% month/month bodes well for this week's 2Q GDP release.  Improvements in pandemic-related supply chain disruptions, along with continued strong demand for consumer services and experiences like travel and entertainment will be instrumental in this report of our nation's economic activity and growth rate.  While many economists still believe an economic downturn or recession is in the offing, it may very well be far milder than others historically. Additional consumer confidence and sentiment data coming this week is likely to show further evidence of improving conditions as we move closer to the end of this rate hiking cycle.

Any economic slowdown that develops may have a silver lining for the markets. If consumer spending eventually softens, it should help the downward path for inflation, in turn allowing the Fed to back away from a restrictive interest-rate policy. Therefore, a market pullback spurred by signs of economic weakness could be mitigated by the prospects of a less aggressive Fed and, potentially, rate cuts next year. Remember, markets always try to move in anticipation of where the economy and corporate earnings are heading far more than where they exist now.

As earnings season swings into high gear, approximately 1/3 of companies in the S&P 500 will be reporting Q2 earnings this week. Corporate earnings are a powerful driver of the market's broader direction. The approaching end of rate hikes, along with some relief on the rising-expense front, could allow companies to showcase earnings resiliency, even in the face of slower demand for some firms. To the extent earnings announcements paint a reasonably positive picture about the profit outlook in the year ahead, we think that would further bolster the case for investors to remain invested, or even take advantage of any potential market weakness that may emerge as the rest of the year unfolds.


Have a great week!

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