

The Economy Cools & Earnings Estimates Warm Up

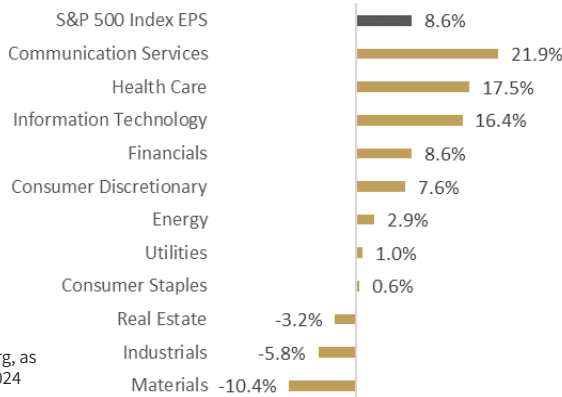
The flurry of earnings reports is about to begin, and the primary question for investors this season is how the gap between weakening macroeconomic data will reconcile with optimistic, bottom-up earnings estimates. The economic lead into this earnings season is less than stellar, given slowing in services and in manufacturing, a cooling labor market, and slowing consumption. However, corporate earnings for companies in the S&P 500 easily cleared the Q1 bar, driving Q2 expectations higher to 8.6% growth.

Most of the S&P's sectors are expected to deliver far less than 8.6% growth. Three sectors, in fact, are expected to show falling earnings over the same period last year. Once again, the so called Magnificent Seven stocks and their associated sectors appear burdened with carrying the earnings baton. However, the gloomy shadows cast on the remaining sectors could set the market up for a broadening rally should these sectors surpass expectations. Reasons to be optimistic include the Utilities sector seeing an AI-fueled boost in power demand. Oil prices have stayed favorable for the Energy sector. Increased prospects of rate cuts could alleviate concerns for real estate companies. And recent earnings revisions have been positive for cyclical sectors like Industrials.

Overall, expectations for the upcoming earnings season do not look daunting, keeping us optimistic for positive stock returns through year end.

CHART OF THE WEEK

EPS Growth Estimates: Q2 2024 (YoY)



Source: Bloomberg, as of 7/12/2024



Equities	Index Returns (%)					
	Level	1 Week	QTD	YTD	1 Year	3-Year Ann.
S&P 500	5631	1.08	3.18	18.96	26.86	11.10
Russell 1000 Growth	3803	-0.17	3.64	25.09	35.51	12.09
Russell 1000 Value	1763	3.01	2.71	9.52	15.18	7.33
FTSE High Dividend Yield*	427	2.66	2.83	10.88	18.09	8.83
S&P Small and Mid Cap	16951	5.10	4.34	8.53	14.70	5.76
MSCI EAFE	2403	1.77	3.85	9.85	13.38	4.85
MSCI EM	1120	1.24	3.54	11.41	12.01	-2.89

* Bloomberg U.S. Large Cap Dividend Yield Total Return Index used as substitute for index characteristics.

Fixed Income	Index Returns (%)					
	Yield	1 Week	QTD	YTD	1 Year	3-Year Ann.
U.S. Aggregate	4.79	0.47	1.27	0.55	3.74	-2.83
U.S. Int. Gov/Credit	4.57	0.49	1.06	1.55	4.86	-0.96
U.S. Corporates	5.26	0.43	1.48	0.98	6.01	-2.80
High Yield	7.68	0.76	1.21	3.83	10.68	1.96
Municipals (1-10)	3.28	0.41	0.61	-0.17	2.76	-0.29

Key Rates	Levels (%)					
	Last	1 Wk Ago	Last Qtr	Prev YE	1 Yr Ago	3 Yrs Ago
2-yr Treasury	4.46	4.63	4.76	4.25	4.75	0.23
10-yr Treasury	4.23	4.30	4.40	3.88	3.81	1.30
30-yr Treasury	4.46	4.49	4.56	4.03	3.93	1.92
3-mo. LIBOR	5.66	5.57	5.59	5.59	5.58	0.13
6-mo. CD rate	5.27	5.33	5.42	5.28	5.70	0.21
Prime Rate	8.50	8.50	8.50	8.50	8.25	3.25
30-yr fixed mortgage	7.16	7.26	7.26	6.99	7.23	3.04

Index Characteristics	Index Characteristics				
	NTM P/E	NTM P/E (20Y med)	NTM P/S	NTM P/S (20Y med)	Div. Yld
S&P 500	23.5	16.7	3.0	1.7	1.3
Russell 1000 Growth	32.6	19.8	5.6	2.0	0.6
Russell 1000 Value	17.7	14.9	1.8	1.4	2.1
FTSE High Dividend Yield*	13.4	14.3	1.6	1.6	4.1
S&P Small and Mid Cap	17.8	19.1	1.3	1.2	1.6
MSCI EAFE	15.2	14.7	1.5	1.1	3.0
MSCI EM	13.4	12.6	1.5	1.3	2.5

Currencies	Levels			
	Last	1 Wk Ago	Prev YE	3 Yrs Ago
DX	104.24	105.13	101.33	92.62
\$ per €	1.09	1.08	1.10	1.18
\$ per £	1.30	1.28	1.27	1.38
¥ per \$	158.35	161.33	141.04	109.83

Commodities	Levels			
	Last	1 Wk Ago	Prev YE	3 Yrs Ago
Oil (WTI)	80.80	81.41	71.69	56.86
Gasoline	3.52	3.54	3.12	3.16
Natural Gas	2.64	2.34	2.51	3.61
Gold	1924	2364	2063	1829
Copper	8350	9711	8464	9452
Wheat	604	554	628	672
BBG Index	235.40	237.76	226.43	200.99

LAST WEEK IN REVIEW

- **Consumer Price Index (June):** Downside surprise. HL: -0.1% MoM, 3.0% YoY. Core: 0.1% MoM, 3.3% YoY.
- **Producer Price Index (June):** HL 0.2% MoM, 2.6% YoY. Core: 0.0% MoM, 3.0% YoY.
- **U. of Mich. Sentiment (July P):** 66, moving lower from June's 68. Inflation expectations: 2.9% (1yr.) and 2.9% (5-10yr.)

THIS WEEK

- **Retail Sales (June):** 7/16
- **Housing Starts & Permits (June):** 7/17
- **Industrial Production (June):** 7/17
- **Leading Economic Index (June):** 7/18

S&P SECTOR RETURNS

