



Weekly Market Guide

Market momentum has slowed over the past week, in the aftermath of Fitch throwing cold water on investors' economic optimism (downgraded US debt to AA+ from AAA on 8/1). In our opinion, odds have spiked for the first pullback in a while. We note that new lows have expanded despite the market's upside (indicating some weakness beneath the surface), there have been breakdowns in a few key stocks, Technology and the semiconductors are moving below 50 DMA support, and the S&P 500 has broken below its 20-day moving average for the first time since May.

After such a strong market run, "buy the pullback" investor mentality is likely the dominant force- and may kick in somewhere near the 50 DMA (4427). Assessing the degree of investor conviction and price action beneath the surface over the coming days and weeks will tell us a lot about what may transpire going forward. If the bounce is meager and followed by a down-leg that undercuts the recent low, odds will be high for an extended (weeks to months) back-and-forth period. Our bias is for a meager bounce. Many economic variables flashing caution, along with market momentum slowing, make us more susceptible to a pullback or consolidation period.

Data flow will play a big role in the degree of weakness or the ability for equities to shake it off. Investors will get a full slate of July economic data over the next week- starting with July CPI tomorrow (8/10), followed by PPI (8/11), Retail Sales (8/15), Industrial Production (8/16), and Leading Economic Indicators (8/17).

Q2 Earnings Season Notes: Q2 earnings season is approaching an end with 80% of the S&P 500's market cap having reported thus far. 79% of companies have beaten on the bottom-line for an aggregate earnings surprise of 7.5% (both above long-term averages). Additionally, forward estimates have held steady and ticked slightly higher- supporting the improvement in overall equity market trends. **While results have been solid, price reactions have been more muted.** For example, the average 3-day price change on results has been -0.4% (indicating a degree of a "buy on the rumor, sell on the news" within the reports). Many stocks were priced for perfection after strong appreciation in the lead up to earnings season. Companies reporting beat & raises have traded up 0.9% in the 3 days post-results on average, while the others have traded -2.1% lower on average. **The muted price action factors into our overall view that valuations have priced in a lot of good news at current levels- and any disruptions to those bullish views will be a headwind.**

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	6.5%	7.6%
S&P 500	17.2%	8.7%
S&P 500 (Equal-Weight)	7.4%	3.7%
NASDAQ Composite	32.7%	9.8%
Russell 2000	10.6%	0.3%
MSCI All-Cap World	13.7%	7.4%
MSCI Developed Markets	9.5%	9.4%
MSCI Emerging Markets	4.9%	0.2%
NYSE Alerian MLP	8.5%	15.0%
MSCI U.S. REIT	3.9%	-10.4%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	42.9%	8.8%
Information Technology	38.9%	27.3%
Consumer Discretionary	34.8%	10.7%
S&P 500	17.2%	-
Industrials	10.9%	8.5%
Materials	7.0%	2.5%
Financials	2.3%	12.8%
Consumer Staples	0.7%	6.6%
Real Estate	0.6%	2.3%
Energy	-0.7%	4.4%
Health Care	-0.9%	13.5%
Utilities	-9.0%	2.5%

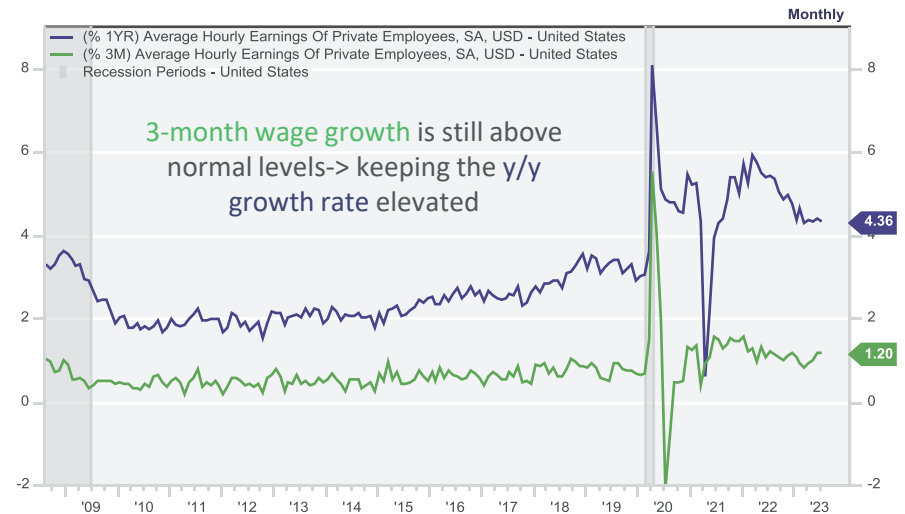
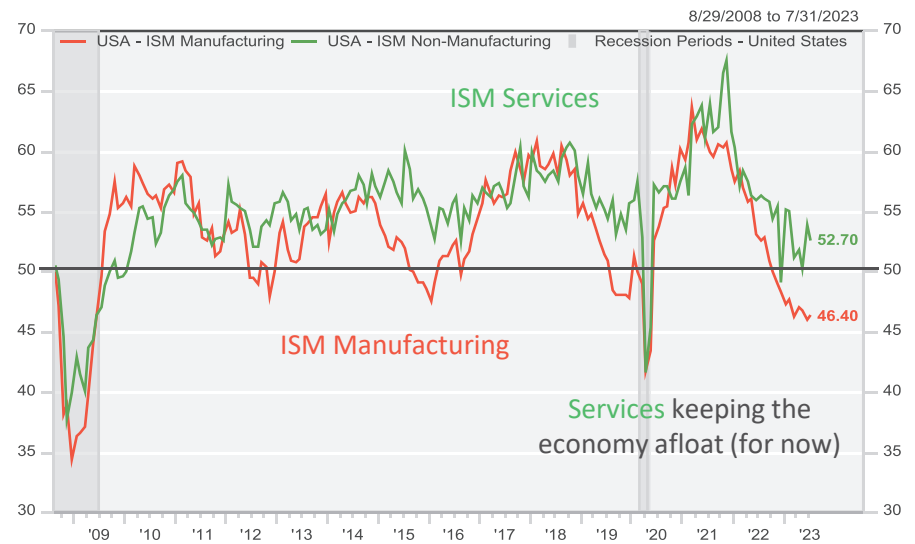
Source: FactSet

MACRO: US

All eyes were on the ISM services survey and jobs report last week- with both showing some softness, albeit at still solid levels. July ISM services ticked down to 52.7 from 53.9 (still in expansionary territory). Within the report, services employment weakened to 50.7 and new orders was a healthy 55.0. While the services side of the economy continues to hold up, so does pricing pressure. Services prices ticked up to 56.8. Additionally, the July jobs report showed an increase of 187k jobs but with wages growing at an elevated 0.4% m/m (staying at 4.4% y/y). High wage growth (from a strong jobs market) continues to run the risk of putting upward pressure on inflation ahead-keeping the Fed on alert. The economy is holding up well this year (due to services- buoyed by excess savings from Covid), though we remain cautious on the outlook as the lagged effects of rapid Fed tightening (high interest rates and weak bank lending) weigh on activity ahead.

Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	07/22	1,700K	1,700K	1,679K
Initial Claims SA	07/29	227.0K	227.0K	221.0K
Unit Labor Costs SAAR Q/Q (Preliminary)	Q2	1.6%	2.3%	3.3%
Productivity SAAR Q/Q (Preliminary)	Q2	3.7%	2.0%	-1.2%
PMI Composite SA (Final)	JUL	52.0	52.0	52.0
Markit PMI Services SA (Final)	JUL	52.3	52.4	52.4
Durable Orders ex-Transportation SA M/M (Final)	JUN	0.49%	-	0.60%
Durable Orders SA M/M (Final)	JUN	4.6%	4.7%	4.7%
Factory Orders SA M/M	JUN	2.3%	2.3%	0.40%
ISM Services PMI SA	JUL	52.7	53.0	53.9
Hourly Earnings SA M/M (Preliminary)	JUL	0.40%	0.30%	0.45%
Hourly Earnings Y/Y (Preliminary)	JUL	4.4%	4.2%	4.4%
Nonfarm Payrolls SA	JUL	187.0K	195.0K	185.0K
Unemployment Rate	JUL	3.5%	3.6%	3.6%
Consumer Credit SA	JUN	\$17.8B	\$13.3B	\$9.5B
NFIB Small Business Index	JUL	91.9	-	91.0
Trade Balance SA	JUN	-\$65.5B	-\$65.0B	-\$68.3B
Wholesale Inventories SA M/M (Final)	JUN	-0.50%	-0.30%	-0.30%

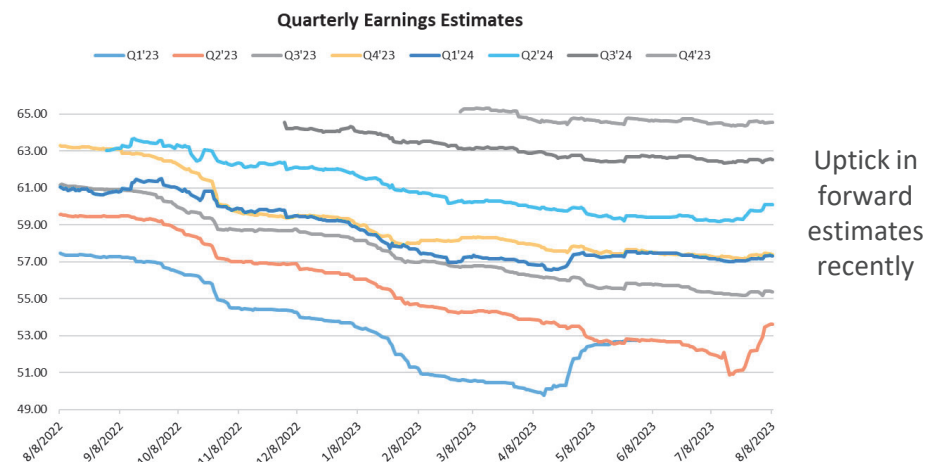
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Q2 EARNINGS SEASON

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While results have been solid, price reactions have been more muted. For example, the average 3-day price change on results has been -0.4%- indicating a degree of a “buy on the rumor, sell on the news” within the reports. Many stocks were priced for perfection after strong appreciation in the lead up to earnings season. Companies reporting beat & raises have traded up 0.9% in the 3 days post-results on average, while the others have traded -2.1% lower on average. The muted price action factors into our overall view that valuations have priced in a lot of good news at current levels- and any disruptions to those bullish views will be a headwind.



S&P 500 Sector	% Q2 Est. EPS Growth		% EPS Surprise	% Companies w/ Beats	# of Companies Reporting			Est. Chg Since Year End			Avg 1D Price Reaction	3-Day Reaction	YTD Return
	Y/Y	Q/Q			Positive	Inline	Negative	Q2' 23	2023	2024			
S&P 500	-3.7	1.7	7.5	79	354	21	72	-4.8%	-4.2%	-2.8%	-0.6%	-0.7%	17.09
Consumer Discretionary	56.6	36.8	26.6	86	36	0	6	9.3%	0.7%	-5.8%	-2.4%	-1.8%	34.17
Information Technology	1.0	1.9	7.7	92	46	2	2	0.4%	-3.0%	-1.7%	-1.2%	-1.1%	37.94
Industrials	15.7	25.1	7.5	76	54	5	12	5.9%	0.8%	0.7%	-0.6%	-1.0%	11.22
Materials	-27.7	8.9	7.2	75	21	1	6	-8.6%	-8.9%	-7.9%	-0.5%	-0.4%	7.04
Utilities	-1.7	-4.6	7.0	67	20	2	8	-3.8%	-1.1%	-0.9%	-1.2%	-2.2%	-8.79
Financials	7.3	-2.9	6.7	71	49	3	17	-7.0%	-7.8%	-9.6%	0.4%	0.5%	2.09
Communication Services	24.6	16.6	6.2	84	16	0	3	10.6%	8.5%	10.3%	-1.4%	-2.6%	42.49
Consumer Staples	5.9	5.7	5.4	85	23	1	3	-2.2%	-1.7%	-1.9%	0.0%	-0.8%	1.21
Health Care	-27.1	-16.9	4.8	89	51	1	5	-22.4%	-9.5%	-5.2%	0.5%	0.1%	-0.50
Energy	-48.7	-22.9	3.1	74	17	2	4	-26.1%	-19.1%	-8.0%	0.1%	1.4%	1.05
Real Estate	7.6	6.4	2.5	66	19	4	6	0.1%	-0.9%	-1.8%	-1.7%	-1.2%	0.62

Source: FactSet

TECHNICAL: S&P 500



For the first time since May, the S&P 500 is trading below its 20-day moving average. Along with new lows expanding, market-leading Technology breaking below 50 DMA support, and breakdowns in a few key stock charts, momentum from the recent up-wave is slowing.

After such a strong market run, “buy the pullback” investor mentality is likely the dominant force- and may kick in somewhere near the 50 DMA (4427).

Assessing the degree of investor conviction (to the upside and downside) and price action beneath the surface over the coming days and weeks will tell us a lot about what may transpire going forward. If the bounce is meager (from short-term oversold levels) and followed by a down-leg that undercuts the recent low, odds will be high for an extended (weeks to months) back-and-forth period.

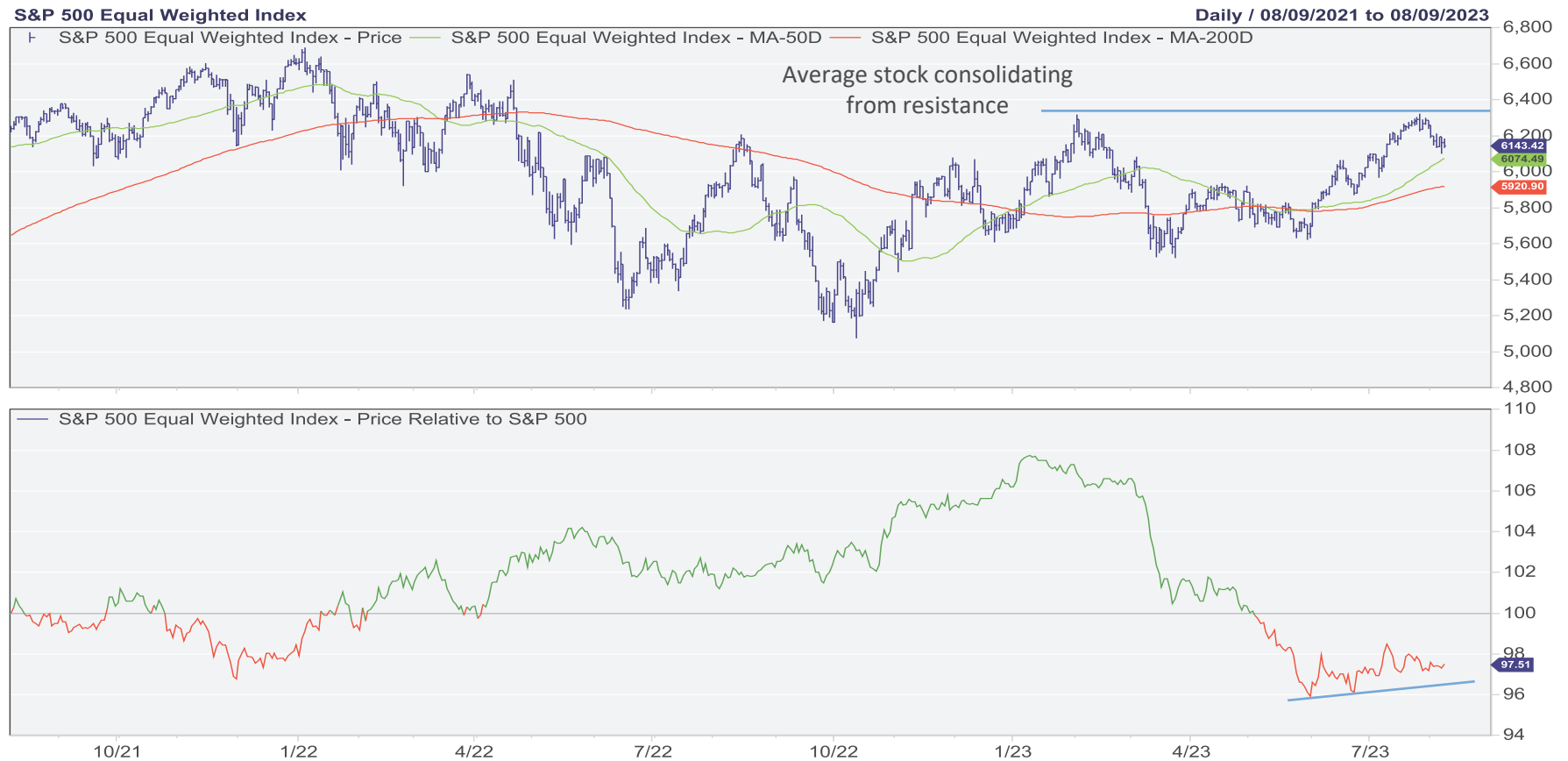
Our bias is for a meager bounce. Many economic variables flashing caution, along with market momentum slowing, makes us more susceptible to a pullback or consolidation period.

Short-term stochastics are oversold, but it may prove difficult to shake-off the momentum slowdown with economic leading indicators flashing caution and sentiment overly bullish (in our opinion). Support levels include the 50-DMA (4427), ~4341 (horizontal support), and ~4200 (horizontal support from June breakout).

Source: FactSet

“AVERAGE STOCK”

The equally-weighted S&P 500 index has consolidated its up-move after hitting clear resistance at February highs. However, overall prices are still above their 50- and 200-day moving averages. It would be a healthy development technically to see the equal-weight index hold above that support and break out to new highs, particularly on relative strength. In order for the current trend to transition into a healthy bull market, we will likely need to see participation broaden out- keep an eye on relative strength for the average stock.



Source: FactSet

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