Weekly Wire

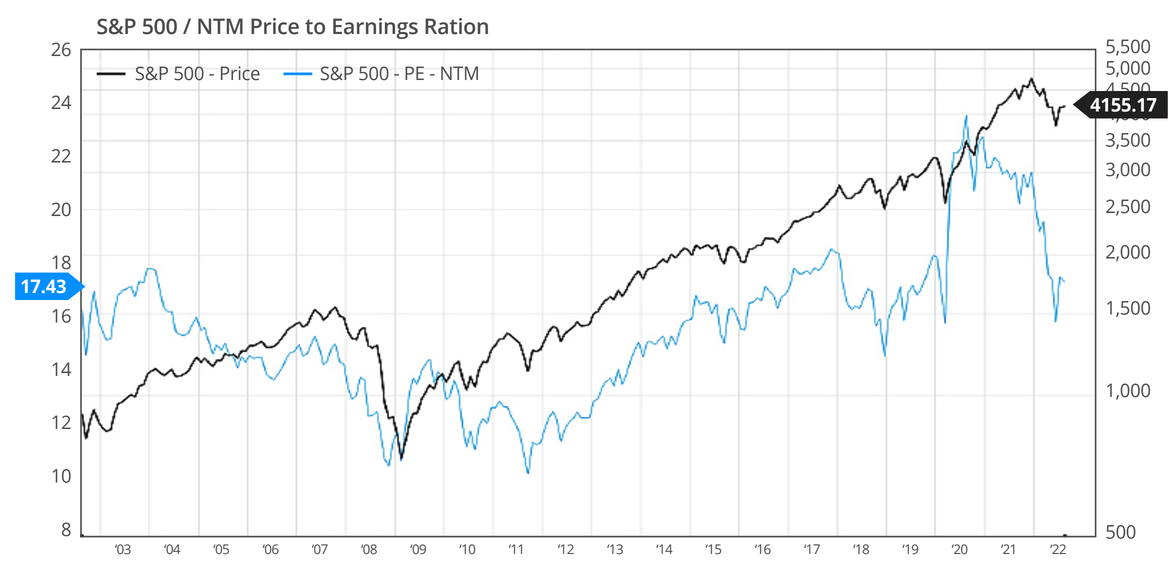
AUGUST 8, 2022

That's Right, It's Earnings Season

It seems to us Wall Street has kind of forgotten about Q2 earnings season, which is understandable considering investors have had to contend with Speaker Pelosi's visit to Taiwan; the Q2 GDP report; the Federal Reserve concluding its July meeting and raising the Fed Funds Rate by 75 bps and a red-hot debate about whether the US economy is or is not in a recession (for our money, we continue to believe we are not in recession, per the definition used by the National Bureau of Economic Research).

We want to come back to Q2 earnings season because, while earnings season is always a big deal, we think this earnings season matters a bit more than most, as it seems many Wall Street Bears have based their particularly pessimistic outlooks for stocks on the idea earnings expectations were excessively optimistic, so the market wasn't nearly as attractively valued as it seemed to many, heading into July. Said differently, even when the S&P 500 was off about 23% year-to-date and trading at about 16x expected next twelve-month earnings (see chart; blue line – far right), many market prognosticators believed the market still wasn't attractively valued as expected earnings would come in well shy of expectations (which meant the P/E on the market really wasn't what we would consider to be a reasonably attractive 16x), and thus the market had further to fall.

So far, with about 400 companies within the S&P 500 having reported Q2 results as of August 4th, 77% have reported earnings above analyst expectations and 69% have reported revenues above analyst expectations; those "beat rates" compare with long-term averages of 66% and 62%, respectively. Maybe more importantly, the Q2 year-over-year blended earnings growth rate for those companies that have reported is 8.6%, a robust rate considering geo-political uncertainty and historically high inflation continue to weigh on consumer sentiment. The resiliency of corporate America never fails to amaze us.



Stocks, bonds, and commodities (8/5/2022)

Security name	Last	QTD chg	YTD chg	12mo chg
S&P 500	4145.19	9.51%	-13.03%	-6.57%
MSCI AC World ex USA	285.65	3.33%	-17.04%	-18.20%
MSCI EAFE	1941.71	5.17%	-16.88%	-17.19%
MSCI EM	994.59	-0.61%	-19.27%	-23.05%
Bloomberg Barclays US Agg	93.70	1.16%	-10.53%	-12.21%
Crude Oil WTI	88.53	-16.29%	17.71%	29.66%
Natural Gas	8.01	48.46%	125.05%	93.36%

Treasury rates (8/5/2022)

	Price		Yield
2Y	99.16 /	0.00	3.234
3Y	99.15 /	0.00	3.185
5Y	99.00 /	0.00	2.961
7Y	98.07 /	0.00	2.902
10Y	100.1 /	0.00	2.834
30Y	96.09 /	0.00	3.063

Weekly reports

This week (8/8/2022)

- July CPI NSA Y/Y
- July PPI NSA Y/Y

Week of 8/1/2022

- June JOLTS Job Openings 10,698K
- July Nonfarm Payrolls SA 528.0K

Brinker Capital Market Barometer

JULY 2022

A healthy labor market and solid balance sheets for both consumers and corporations are providing support to the U.S. economy despite the headwinds from high inflation, tightening monetary policy, and geopolitical stress. Financial markets are more acutely focused on the downside pressures with most major global equity markets falling into bear market territory during the second quarter. The Fed's last-minute pivot to a 75 basis point increase in the Fed funds rate at the most recent FOMC meeting led to greater skepticism that they will be able to engineer a "soft landing" without tipping the U.S. economy into a recession. Longer-term Treasury yields have shown some stability over recent weeks, and consensus expectations for CY 2022 earnings growth remain resilient (+10%). The trajectory of inflation over the coming months will be critical in determining the outlook for the economy and markets in the back half of the year.

SHORT-TERM FACTORS (< 6 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Momentum		●			Despite sporadic attempts to rally, most equity markets remain in bear market territory
Trend		●			Major global equity indices remain below moving averages
Investor sentiment				●	Surveys show significantly more bears than bulls; tends to be a contrarian signal
Seasonality		●			Markets in midst of seasonally-weak period; more pronounced in midterm election years

INTERMEDIATE-TERM FACTORS (6-36 months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Fiscal policy			●		Diminshed likelihood of significant legislation; surging tax revenues aiding deficit reduction
Monetary policy			●		Fed moving toward more restrictive stance; money supply and negative real yields supportive
Inflation		●			Might have reached peak inflation but prices are still rising at historically high rates
Interest rate environment			●		Rates moving higher but still historically low; yield curve maintains modestly positive slope
Macroeconomic	←		●		Labor market remains healthy but consumer spending and other economic data moderating
Business sentiment		●			Business confidence measures have continued to decline with inflation as a primary driver
Consumer sentiment		●			Consumer sentiment decidedly pessimistic; expectations over next 6-12 months deteriorating
Corporate earnings				●	Earnings remain resilient; margin pressures causing modest rise in negative estimate revisions
Credit environment				●	Widening in corporate credit spreads orderly in nature; remain tight relative to history

LONG-TERM FACTORS (36+ months)

	CHANGE	NEGATIVE	NEUTRAL	POSITIVE	
Valuation			●		U.S. equity valuations near long-term averages; overseas markets below average valuations
Business cycle	←		●		Decelerating GDP growth and negative LEI increasing the potential for shallow recession
Demographics			●		Emerging markets possess more favorable trends overall than developed markets

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