

Week in review and ahead (vol.30)



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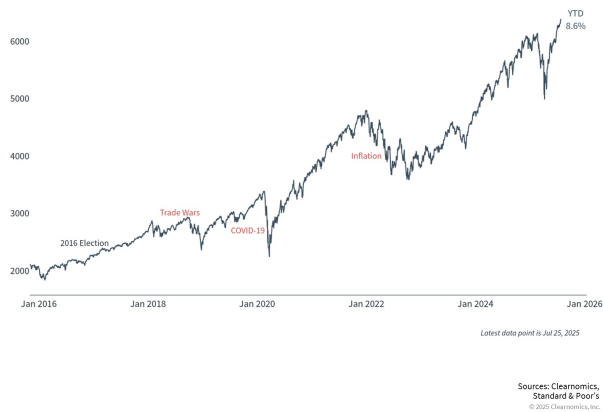
Equity markets in the US closed out the week in strong fashion with major indices advancing by about 1% or more for the week and the S&P500 setting its 14th record close this year on Friday. The risk-on sentiment continued as corporate earnings in general are better than expected and on POTUS announcement of a framework for a trade deal with Japan, and as recently as this evening with the European Union ('EU') that establishes, among other, 15% of tariffs on imports from both. News of a possible meeting between POTUS and China President Xi is equally viewed positive as are resumption of trade negotiations among and between the two largest economies on Monday in Stockholm, Sweden.

The S&P500 advanced 1.5% for the week while the tech heavy Nasdaq Composite and the Dow Jones closed the week higher by 1% and 1.3%, respectively. All (S&P500) sectors advanced the past week without exception led by healthcare, after weeks of declines, which closed higher by 3.4%.

Internationally, most major equity markets advanced for the week with the exception of India and Germany, which declined by -0.4% and -0.3%, respectively, with the later on concerns of a possible trade deal with the US. Given the announcement this evening, just three (3) days ahead of the August 1st deadline that would impose 30% tariffs on EU imports, the market should react positively on the notion of predictability for businesses going forward and avoidance of higher (than current) tariffs.

Stock Market Performance

S&P 500 Index, recent period



Macroeconomic data continues to show a resilient US economy, even with the housing market continuing to slump. Existing home sales in June disappointed in falling below 4 million (3.93M) compared to expectations of 4 million and sequentially by -2.7%, from 4.04 million in May. New home sales in June, while showing a slight improvement over May, increasing by 4K to 627K, did fall short of expectations of 645K. The median home price in June, while supply constraints appear to be softening somewhat with available inventory expanding, did increase by 2% setting a new all-time high at \$435.3K and likely exacerbating home affordability for first time home buyers amid high interest

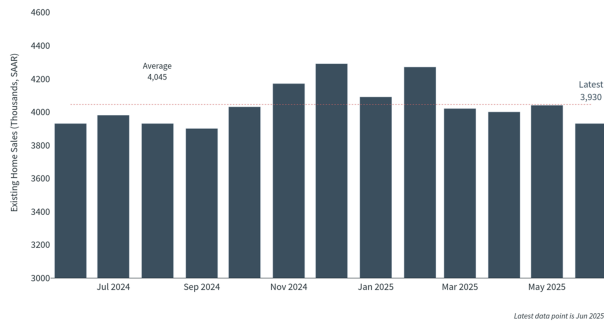
rates.

The labor market continues to surprise with initial jobless claims declining sequentially for a sixth consecutive week, the longest such streak in three (3) years, to 217K from 221K last week and well below expectations of 227K. The continuing claims, however, remained stubbornly at 1.97M and has not yet seen any improvement recently denoting some challenge for labor to re-enter the workforce once laid off amidst a general decline in labor participation due to, among other, stringent immigration policies.

Preliminary estimates by S&P with its flash reading for July did show the services sector solidly in expansionary territory with a reading of 55.2 compared to estimates of 53.2 and higher than the reported 52.9 for June, while the manufacturing sector retraced to 49.5 from 52.9 in June and expectations of 52.7. Final readings by S&P are expected next week as are the closely watched ISM readings. Durable goods orders for June surprised with better-than-expected data points, declining -9.3% compared to expectations of a decline of -11.1 and therefore offsetting a robust growth rate in May of 16.5%. Excluding transportation, i.e., autos and planes, durable goods increased in June by 0.2% compared to 0.5% in May.

Existing Home Sales

Number of previously owned and occupied homes sold

Sources: Clearnomics,
National Association of Realtors
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Next week will see various key macroeconomic reports, leading with the FOMC's announcement on monetary policy, or rates, on Wednesday. The meeting is scheduled to kick off on Tuesday and markets will observe with some curiosity if the continued pressure by POTUS and its administration, including a somewhat unprecedented visit of the Fed last week by POTUS, on the Fed chair (and to an extent on FOMC voting members) will lead to rate cuts. Markets, however, are not expecting the Fed to cut rates at this meeting with a stable US economy while inflation remains elevated and well off the Fed target of 2%.

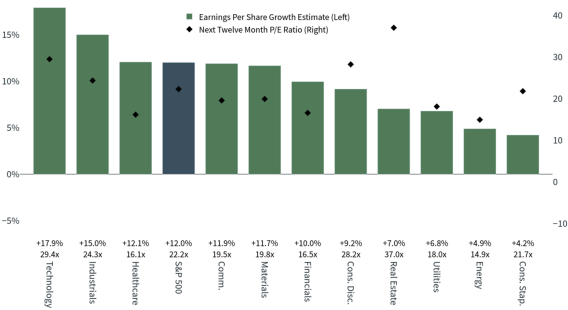
The Fed meeting, however, will not have the benefit of an update on its closely watched inflation gauge, the PCE index, which is scheduled to report on Thursday (or a day after the FOMC's announcement on monetary policy). Expectations for the core PCE inflation index for June are acceleration in the month-over-month to 0.3% from 0.2% in May, while on an annual basis remaining steady at 2.7%, same as in May.

Besides the Fed and PCE reports, markets will closely watch the employment report for July, with non-farm payrolls expected to increase just above 100K and the unemployment rate tick up marginally to 4.2% (from 4.1% in June). Prior to that, the first estimate on the US' second quarter GDP estimates are expected to show the US return to growth (after declining -0.5% during Q1'25 per the 3rd estimate) at a rate of 2.3%.

Finally, corporate earnings continue next week with more than 1,000 companies scheduled to report on their quarterly results, including four (4) of the 'Magnificent Seven' after Google and Tesla last week, namely, Apple, Amazon, Microsoft, and Meta. In general, earnings thus far have been better than expected with FactSet reporting that of the 34% of S&P500 companies that reported to date, 80% have reported actual earnings per share (EPS), above expectations, up from the five (5)-year average of 78%. Similarly, of the S&P companies, 80% reported actual revenues above expectations, which is well above their 5-year average of 70%. The sector(s) leading in surprising markets with actual revenues and EPS above expectations are the tech sector, per FactSet, specifically the IT and Communications sector. The health care sector, thus far per FactSet, shares the lead with the Communications Service in actual revenues being above estimates (with 100% of the Companies that reported), however, only 71% of those reported actual EPS above estimates (compared to 89% of the companies in the Communication sector and 94% in the IT sector, respectively).

Sector Earnings and Valuations

Earnings Growth and P/E Ratios, Next Twelve Month Estimates



Sources: Clearnomics, LSEG, Standard & Poor's
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If you have questions about how this may impact your investments, or how you should be positioned, please do not hesitate to contact us at claudio@caladocapital.com.

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