Week in review and ahead (vol.31)

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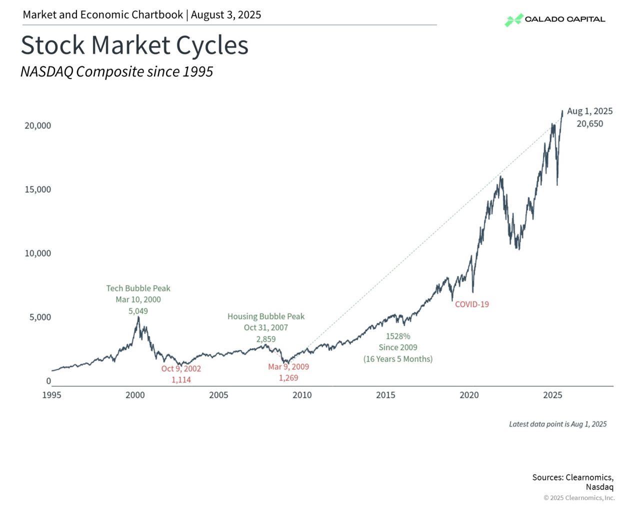
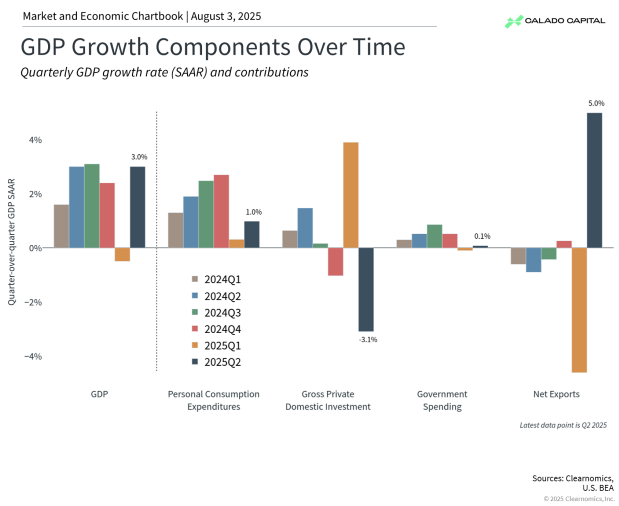
Equity markets in the US experienced one of their worst weekly performances since May after weeks of risk-on sentiment as earnings, particularly in the tech sector were better than expected. The disappointing job report in the US on Friday with significant downward revisions (erasing 258K of previously reported job growth) to the previous two (2) months, coinciding with reciprocal US import tariffs going into effect after being put on hold twice before, saw all major indices in the US (and globally for that matter) sell off. The S&P500, which at the beginning of trade on Thursday had just reached yet another all-time high (of 6,427), declined about -1.6% on Friday alone, culminating in a -2.4% decline for the week. Similarly, the tech-heavy Nasdaq Composite, setting a new all-time high at the beginning of trade on Thursday (at 21,457), declined about -2.3% on Friday, materially contributing to the weekly decline of -2.2%. The Dow Jones declined -2.9% for the week and the small cap Russell 2000 experienced a drop of -4.2% for the week.

From a sectorial perspective (in the S&P500), all sectors declined for the week and except for utilities that increased by 1.5% for the week. Internationally, all major indices followed suit and sold off for the week with the steepest weekly declines seen in France (Cac-40), Germany (DAX), and Hong Kong (Hang Seng) at -3.7%, -3.3%, and -3.5%, respectively.



Markets began the week with continued risk-on sentiment amidst better than expected earnings, including four of the "Magnificent 7" reporting and macroeconomic data that (initially) supported sentiment as market participants were anticipating the Fed meeting, albeit very few expected a change to monetary policy, including rates, and key inflation and labor.

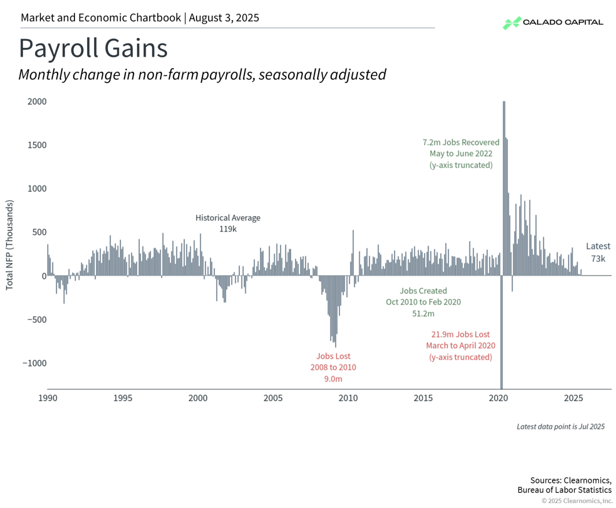
Consumer confidence for July continued the upward trajectory of late, coming in at 97.2 compared to an estimated 95.2 and readings of 93.0 in June. The job openings on Tuesday were somewhat less than expected at 7.4M, compared to expectations of 7.5M and 7.7M for the prior period. The first estimate of Q2'25 US GDP, at 3.0% compared to estimates of 2.3% and a decline during Q1'25 of -0.5% provided a boost to markets, particularly as private consumption remained at a solid pace, despite benefiting greatly from the declining trade deficit. The Fed's announcement, to no surprise, to keep rates and policy at current levels, did have little impact on equities, however, commentary that the Fed may not cut in September, and which was somewhat widely expected, did trigger a sale-off initially as markets rebounded towards the close on Wednesday. The Fed's decision and Chair Powell's comments unsurprisingly continued to draw the ire of POTUS and the administration, however, markets were satisfied that the rationale of a stronger US economy may provide the Fed with the ability to continue with its wait-and-see stance.



The housing market continues to see structural weakness, as pending home sales for June were down by -0.8% compared to estimates of a moderate increase of 0.2%, and following a 1.8% increase in May that saw many hopeful that the housing market had indeed hit the bottom (and may be in the process of rebounding). On the inflation side, the core PCE index, a closely watched gauge by the Fed, came in at or above estimates, both on a month-over-month ('MoM') and year-over-year ('YoY') basis, however, showing some signs of re-acceleration sequentially on both, MoM, and YoY. Core PCE inflation index MoM was 0.3% as estimated but up from 0.2% previously, while YoY it was up 2.8% compared to estimates of 2.7% and 2.8% previously.

Weekly jobless claims continued to be at moderate levels, with 218K better than the expected 222K and moderately higher than the previous 217K. Similarly, continuing claims improved marginally week-over-week, falling below 1.95M. The jobs report for July did disappoint, however, and in coinciding with the imposition of reciprocal tariffs by the US on Friday, August 1st, triggered the risk-off sentiment and the sell-off of risk assets that contributed to markets closing below the end of the previous week, its worst weekly performance since May. The surveys on the manufacturing sector by both, S&P and ISM, denoting it is in contraction territory with readings of 49.8 and 48%, and worse than expected, respectively, did little to influence sentiment on Friday,

For the month of July, the US added 73K jobs compared to estimates of 100K for the month and well below the 147K sequentially, which itself was subject to material unfavorable adjustments. Combined with the unfavorable adjustment for the month of May, the previous periods appear to have overstated job growth in the US by 258K, indicating that while lay-offs may be less than feared on one hand, a lack of new jobs on the other hand may pose threats and risks to the labor market resilience, at some point. Accordingly, expectations that just two days prior shifted to no cuts in rates in September (in large part due to the resilient labor market) reversed and likelihood for easing (monetary policy) increased. The unemployment rate ticked up moderately to 4.2%, as expected, however, up from 4.1% sequentially.



Next week's macroeconomic calendar will be light (compared to last) with markets surely focusing on the fall out from the July job reports, combined with the material adjustments for May and June that lead POTUS to fire the BLS (Bureau of Labor Statistics) Commissioner hours after the report and which has drawn widespread criticism and concerns.

Company earnings are to continue next week, but the number of Companies reporting will be considerably down going forward after reaching a peak last week.

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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