Week in review and ahead (vol.32)

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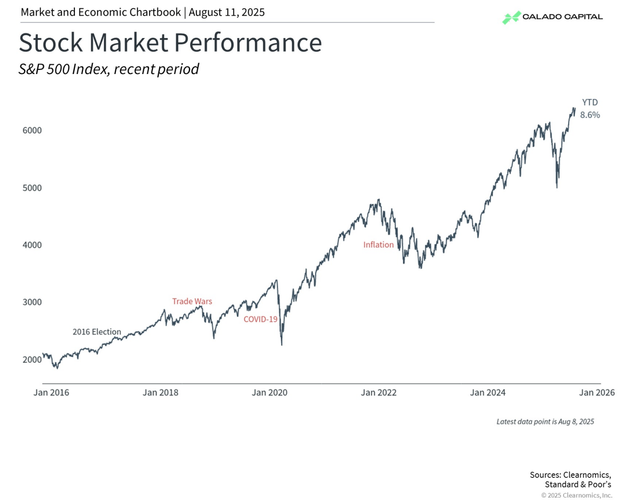
The equity markets strongly rebounded this past week after the disappointing July jobs report the week before that triggered a sell-off. With little macroeconomic data, strong corporate earnings, driven by tech, supported the rebound and returned to risk-on sentiment as volatility retraced to just above 15 as measured with the COE's VIX.

For the week, all US equity indices closed well ahead of the close the week before, with the Nasdaq Composite advancing the most led by tech, up nearly 4% for the week and closing near its all-time high. The S&P500 closed the week up 2.4% while the Dow Jones and Russell 2000 ended the week advancing 1.3% and 2.4%, respectively.

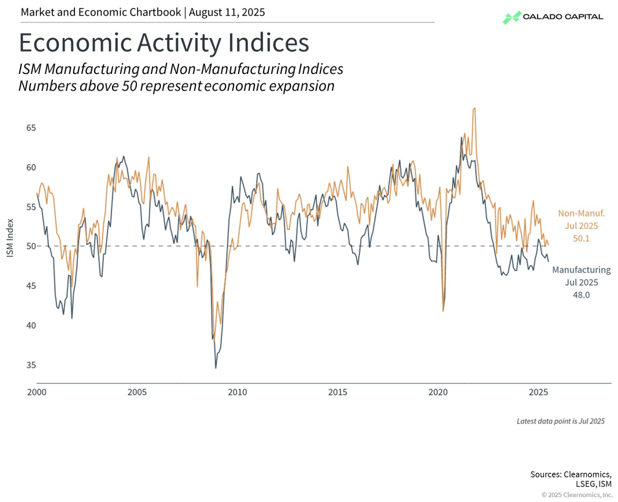
Internationally, all major indices advanced on the week, as well, with the strongest gains seen in Germany that saw the DAX advanced 3.2% on the week, except for India. Equity markets declined -0.9% as India has yet to agree on a trade deal with the US, and otherwise is now subject to additional tariffs as POTUS seeks for India to halt Russian oil purchases as it seeks to increase political and economic pressure on Russia to end the war. Hopes of a conclusion to the Russian-Ukrainian war further lifted markets on Friday, as news of a meeting among and between POTUS and Russian President Putin in Alaska this week Friday were made public (and confirmed), albeit it is not quite clear if Ukrainian President Zelensky is to be in attendance as the US hoped for.



With a light macroeconomic release schedule last week, markets focused on corporate earnings that continued, in general, to be better than expected, fueling the rebound in risk asset prices, and even the official effective date of POTUS' reciprocal tariffs of August 7th just after midnight did little to reverse the trend, albeit for most of the second half last week, equity markets opened strong and by the end of the day gave most of those gains back.

Besides the weekly jobless claims data, markets focused on the S&P and ISM service readings of the US economy. While the S&P service PMI readings for July were better than expected, markets reacted somewhat to ISM's readings for the service sector in July of 50.1%, which was below expectations of 51.1% and sequentially, down from 50.8% in June, denoting a slowdown in economic activity in the service sector. Similarly, weekly jobless claims were above expectations of 221K and sequentially of 219K, increasing to 226K. Market's did eye the increase in continuing claims to 1.974M, up nearly 30K sequentially, and higher by nearly 20K of expectations, with some concerns as it approaches the $2M. The increase in continuing claims, following last week's disappointing jobs report, had some FOMC members verbalize the possibility of easing monetary policy by way of cutting rates, as its mandate for full employment may be seen at risk.

The release of US productivity for Q2'25 denoted a strong rebound of 2.4%, above expectations of 1.9% and from a -1.8% decline last quarter as a consequence of economic output rebounding in Q2, after declining in Q1.



Next week's focus will be on inflation, with CPI due to report on Tuesday followed by the PPI on Thursday. Given the weak July job report (and the material reductions and unfavorable adjustments to previously reported job growth during the two month's prior), a less favorable inflation report would reignite concerns of inflation re-accelerating and markets' concerns of stagflation in the US that would further enhance the focus on the Fed's next moves with respect to monetary policy.

Besides inflation, the week concludes with an update on the consumer with retail sales for July as well as preliminary consumer confidence for August as surveyed by the University of Michigan.

Equity markets have begun this week with minor change, with most of the (key) corporate earnings already behind, as participants focus on updates to inflation, the labor market and consumer in the US with key macroeconomic data due this week, beginning with CPI tomorrow.

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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