Week in review and ahead (vol.32-26)

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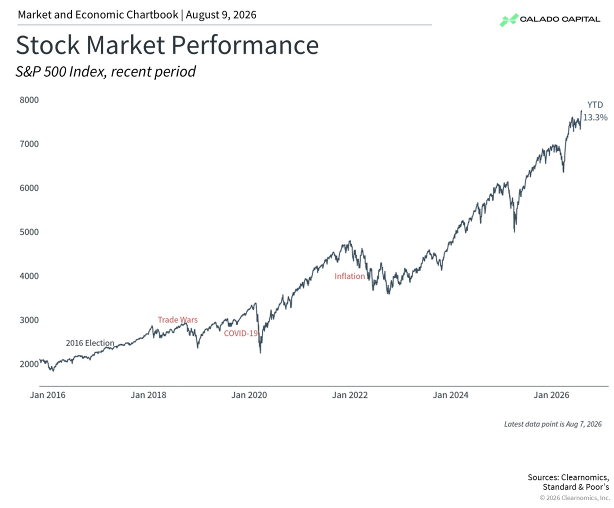
Week in review

Markets posted strong gains for the week driven by key corporate earnings and despite a disappointing job report for July. The labor market data showed a loss of 23,000 jobs, but significantly, revised June's strong job growth number downward. In addition, investors remained hopeful of a solution to the US-Iran conflict amidst ongoing discussions, despite conflicting messages from both sides as to the prospect of such talks. The S&P500 and the Dow Jones managed to hit all-time highs last week, advancing 3.6% and 3.0% for the week, respectively, and closing just below those new highs. The tech-heavy Nasdaq gained a strong 5.2%, while the small cap Russell-2000 advanced 3.5%.

International equities followed suit, with most major markets posting gains for the week. The exception was Hong Kong's Hang Seng that moderately declined by -0.8%, while volatility and capital outflows in South Korea continued to add selling pressures as the Kospi declining yet another -1.6% last week. Since setting a new all-time high in late June, the Kospi has now declined by more than 30% in less than two months. Other major markets in Asia advanced, with Japan's Nikkei gaining 1.9%, somewhat benefiting from the shock coordinated US-Japan Yen intervention for now, while China and India's equities advanced 2.8% and 0.5%, respectively.

European equities continued resilient and posted yet another week of gains as improved sentiment continues to provide a tailwind for risk assets. In Germany the DAX advanced 2.7% while France's CAC-40 gained 2.4%. In the UK, the FTSE posted moderate gains of +0.4% as the positive sentiment surrounding a new prime minister appears to tapper off.

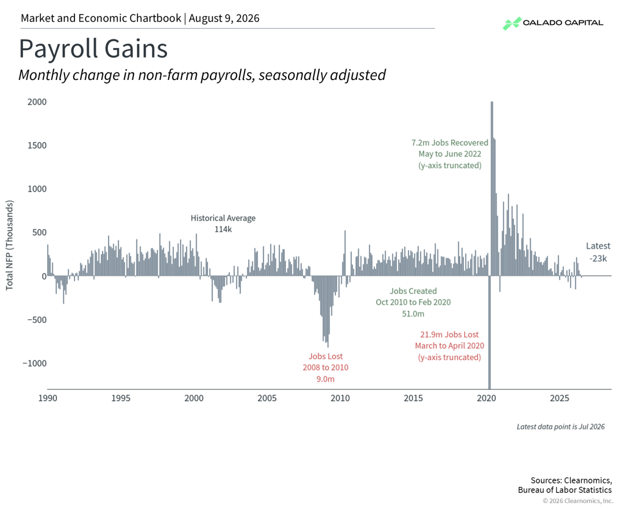


Week in review – US macroeconomics

This past week's US macroeconomic calendar was dominated by the labor market, headlined by the July employment report, with the ISM manufacturing and services surveys, June JOLTS job openings, and weekly jobless claims completing the picture.

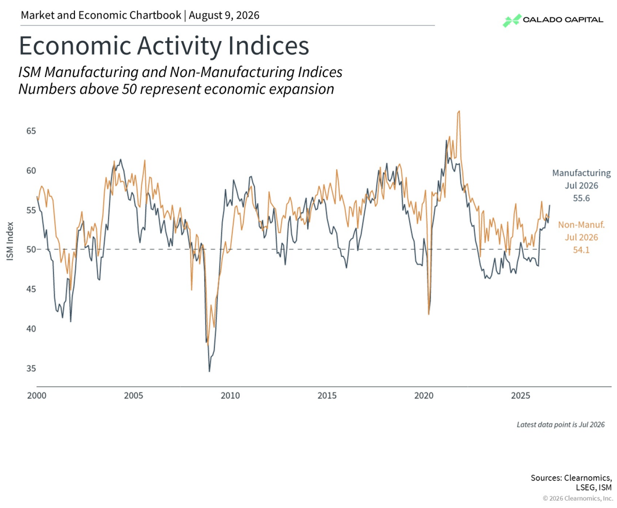
The July nonfarm payroll report surprised sharply to the downside. The economy shed -23,000 jobs in the month, well short of the 80,000 expected, while the prior month's gain was revised down by about 103,000 to just 20,000, underscoring a labor market losing momentum more quickly than anticipated. The labor force participation rate continued to slip, easing to 61.4% from 61.5% and well below its historical average of roughly 62.8%, which helped push the unemployment rate down to 4.1% from 4.2% despite the soft headline. Average hourly earnings were subdued as well, rising a moderate 0.1% MoM and 3.2% YoY, both below expectations and lower sequentially. Risk assets rallied on the release, as investors read the unexpected weakness as a potential counterweight to the Fed's inflation focus, one that could make the case for additional rate hikes more difficult to sustain.

How the Fed reads that report, however, is now harder for markets and investors to assert. Consistent with Chair Warsh's move to communicate less and his retreat from forward guidance, markets will be given less of a sense for how the Committee will weigh a cooling labor market against still-above-target inflation. With the dual mandate pulling in opposite directions, softer employment arguing for patience even as inflation argues for vigilance, the reduced transparency leaves investors to infer the Fed's reaction function with less guidance than in prior cycles, raising the risk of sharper repricing as each data point lands.



The activity surveys, by contrast, painted a firmer economic picture, albeit with a notable divergence in employment. The ISM Manufacturing PMI rose to 55.6 in July, above the 54.0 expected and up sequentially, marking a seventh consecutive month in expansion and the highest reading since May'22. All five subindexes were in expansionary territory, including employment, which crossed into expansion for the first time since September'23. Prices paid grew at a slower pace but remained elevated at 71.1, a reminder that goods-price pressures have yet to fully abate.

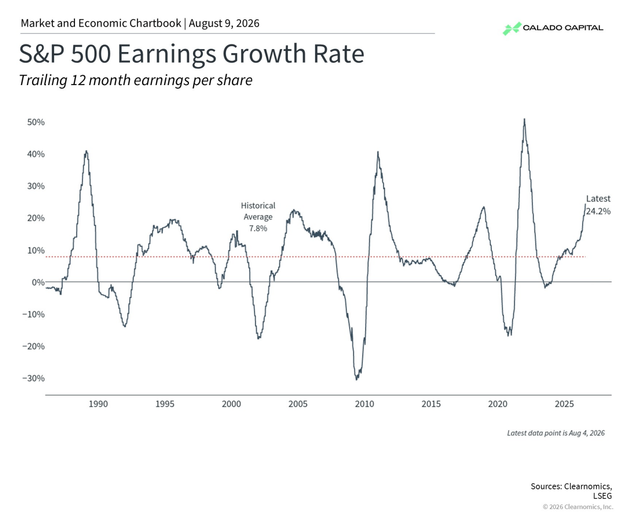
The ISM Services PMI told a more mixed story. The index registered 54.1 in July, just below expectations and little changed from the prior month, extending its expansion to a 25th consecutive month and at an accelerating pace. In contrast to manufacturing, however, the employment component slowed and fell into contraction, even as the remaining subindexes held solidly in expansion. Notably, prices paid accelerated, reversing a recent string of softer readings and signaling that service-sector inflation is likely to remain a challenge. Elsewhere, June JOLTS job openings were roughly in line at nearly 7.4 million, though down sequentially from 7.54 million, while initial jobless claims remained well behaved just below 200K, in line with both expectations and the prior week.



Corporate earnings

The second quarter reporting season delivers exceptional results. Per FactSet, with 88% of the S&P 500 having reported, 86% have topped EPS estimates, above the five-year average of 78% and, if it holds, the highest positive surprise rate since Q2'21. In aggregate, companies are beating estimates by 29.2%, a figure FactSet notes "will mark the highest earnings surprise reported by the index since FactSet began tracking this metric in 2008," eclipsing the prior record of 23.2% set in Q2'20. The blended earnings growth rate has surged to 50.4%, up from 47.4% a week ago and just 23.1% at quarter-end (June 30), which would be the strongest since Q2'21 and mark a second straight quarter above 25% and a seventh consecutive quarter of double-digit growth. Revenue growth of 15.0% would be the best since Q4'21, with ten of eleven sectors posting earnings gains and Health Care the lone decliner.

Much of that surprise, however, is concentrated on two names. FactSet attributes the "unusually high earnings surprise percentage" mainly to the "unusually large positive EPS surprises reported by Alphabet ($9.11 vs. $2.88) and Amazon.com ($5.75 vs. $1.82)," whose GAAP results included sizable one-time gains, a $98 billion lift to Alphabet's other income from unrealized gains on equity securities and a $53.4 billion gain at Amazon tied primarily to its investment in Anthropic. Stripping the pair out, FactSet calculates the index's earnings-surprise rate would fall to 10.9% and blended growth to 32.0%, still well above historical norms but a more grounded read on the quarter. Valuations remain full, with the forward 12-month P/E at 20.0, above its five- and ten-year averages of 19.9 and 19.0 though slightly below the 20.4 recorded on June 30. With the season winding down, the underlying breadth, even excluding the mega-cap distortions, suggests corporate fundamentals remain on firm footing.



Week ahead

The primary focus in the week ahead will be on inflation, with the July CPI and PPI reports scheduled for release. Both are expected to show price pressures increasing at a pace similar to, or slightly below, the prior month. The data will be closely scrutinized in light of the recent softness in labor market conditions, as investors assess how a potentially moderating employment backdrop alongside still-elevated inflation may influence the Federal Reserve's policy path.

Beyond inflation, attention will turn to the health of the consumer, with July retail sales and the preliminary August University of Michigan Consumer Sentiment Index expected to provide a timely gauge of spending activity and household confidence. Markets will also receive additional insight into housing market conditions through the release of July existing home sales, while weekly initial jobless claims will offer a further read on labor market trends and whether the recent weakness in employment data is beginning to broaden.

Number of the week: 55 days

The length of SpaceX's first post-IPO lock-up, well short of the conventional 180-day restriction and less than a third of the customary window. SpaceX (SPCX) went public on June 12, 2026, at $135 per share, and just 55 days later, on August 6, its first tranche of insider stock, some 911.5 million shares, became eligible to sell. Rather than the usual single-cliff expiration, the company adopted a staggered schedule tied to its earnings calendar. The remainder of the 180-day block frees up on December 8, while the largest wave of supply, including Elon Musk's stake, stays restricted until June 2027.

Abbreviated lockups have become a hallmark of the most sought-after listings, where issuers hold enough leverage to grant insiders liquidity sooner, a marker of just how strong demand for scarce shares has been. The first test of that supply proved reassuring, as SPCX rose roughly 6% on the day despite nearly a billion shares coming free, with insiders showing little urgency to sell. Even so, the stock trades near $114, about 15% below its IPO price and well off its $201 peak, and with far larger tranches due in December and again in mid-2027, the market's appetite to absorb the coming supply, and at what price, bears watching.

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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