July 24, 2023 – Investment Commentary

Market Update

Last week, stocks and bonds were up. The MSCI Emerging Markets index outperformed the MSCI EAFE and S&P 500. Across U.S. Russell style & market cap indices, small cap growth did the best, but the quality factor led more broadly. As for fixed income, the 10 year treasury yield fell 23 bps on the week to 3.82% and the 2 year - 10 year treasury yield spread steepened to -91 bps. The best performing parts of the bond market included investment grade corporates. High yield bond spreads were down on the week to 379 bps, well below their 20-year average of roughly 500 bps.

Q2 earnings season starting off well

Initial Q2 results from S&P 500 companies are strong. Financials had some better-than-expected earnings results but increases to loan loss provisions caused prices to not respond as favorably. Within industrials, airlines continue to benefit from the reopening/lower comparisons of last year with strong growth. To start 2023, the P/E was 16.65x, meaning 16% of the +17% price return of the S&P 500 year-to-date has been from multiple expansion. To put this in context, this year is already tracking to be the third largest multiple expansion year in decades, only behind 2009 and 2020. Of course, those years were coming off recession lows and had significant earnings recoveries. The S&P 500 is now up on a total return basis +18.41% year-to-date vs. the U.S. Aggregate Bond Index +2.29%.