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Equities

Global markets were tumultuous amidst escalating conflict in the Middle East, causing stocks to plummet while oil and safe-haven assets, such as Treasuries and the dollar, surged. Tech giants faced a rough week, with a sell-off in the sector weighing on stock markets. Wall Street braced for a flurry of earnings reports from the industry stalwarts that have been driving the market's growth. The S&P 500 experienced its longest losing streak since October 2022, while the Nasdaq 100 dropped by over 2%. Investor focus intensified on the forthcoming earnings releases from major tech players, collectively known as the "Magnificent Seven." The VIX, a measure of market volatility, surged to its highest levels since October, hovering just below 20 as global markets were rattled by concerns of reduced Federal Reserve easing, fueled by hawkish remarks from officials and strong U.S. economic data. As earnings season progresses, anticipation mounts for further insights from tech leaders, who are anticipated to temper their optimistic projections in light of the prevailing "higher for longer" narrative communicated by the Fed.

The S&P 500 returned -3.0%, its worst weekly return in over a year, led by a sell-off in large-cap technology names that have powered the market upwards so far this year. The index is now 5% of its March all-time high. Interest rates moved higher after solid economic data and hawkish Fedspeak reinforced the notion that rates may remain higher for longer. The defensive consumer staples (+1.6%) and utilities (+1.3%) sectors in the S&P 500 had positive returns; technology (-7.3%) was the key laggard. EAFE markets returned -2.3%, with Japan (-6.0%) leading to the downside. EM markets returned -3.6%, dragged down by Korea (-4.7%) and China (-1.9%).

From a valuation perspective, most markets are within ±1 standard deviation based on historical forward P/E ratios, though the S&P 500 is at +1.4. For the next 12 months, EPS growth for S&P 500 is expected to be 8.5% (vs. 7.2% annualized over the last 20 years). For the next 12 months, EPS growth for NASDAQ is expected to be 21.4% (vs. 12.7% annualized over the last 20 years). The S&P 500 (US Large Cap) and NASDAQ trade above their 20-year averages based on forward P/E ratios, as does the MSCI EM (EM Equities), while the Russell Midcap (US Midcap), Russell 2000 (US Small Cap) and MSCI EAFE (Non-US Developed Market Equities) all trade below.

Fixed Income

Investment grade fixed income sectors had negative returns as rates rose across the curve. Municipals returned -0.3%, while US AGG returned -0.6% and US IG returned -0.7%. HY bonds returned -0.6% while bank loans rose 0.1%. EM debt returned -0.4% as the US dollar rose 0.1%.

Rates

Rates rose across the curve amid solid economic data and hawkish Fed speak. The recession-watch 3M-10Y spread compressed 7bps and closed the week at -82. The 2Y-10Y spread compressed 1bp and is now -37. Rates rose in other developed economies as well. The BTP-Bund spread is at 1.43%. 5-year and 10-year breakeven inflation expectations fell and now sit at 2.43% and 2.40%, respectively; the 10Y real yield rose 9bps to 2.22%. The market now expects the Fed to cut one to two times in 2024, with the first cut now pushed out to September (45% probability, though July still prices a 31% probability) vs the Fed’s guidance of three cuts. At year-end 2024, the market expects the Fed Funds rate to be 4.875%.

Currencies/Commodities

The dollar rose 0.1%. The commodities complex fell 1.2% as energy prices fell 3.6% for the week. Brent prices fell to $87/bbl. US natural gas fell 1.0%, still near its lowest levels in 5 years, while European gas rose 0.4%.

Market monitors

Volatility was higher for equities and fell slightly for bonds (VIX = 19, MOVE = 111); the 10-year average for each is VIX=18, MOVE = 76. Market sentiment dropped to 4 from 19 as this month's selloff seems to have spooked investors.