ASAS CAPITAL
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# Weekly Newsletter

July 28th 2023

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## Musings

"Only buy something that you'd be perfectly happy to hold if the market shuts down for ten years."

-Sir Warren Buffett

## Last week in the markets

**Federal Reserve and ECB did the expected, JGB sprang a surprise.**

The Federal Reserve approved a much-anticipated interest rate hike that takes benchmark borrowing costs to a target range of 5.25%-5.5%, **their highest level in more than 22 years.**

European Central Bank delivered an expected 25-basis-point rate hike and gave few clues as to how far it has left to go, though it stressed inflation is "still expected to remain too high for too long."

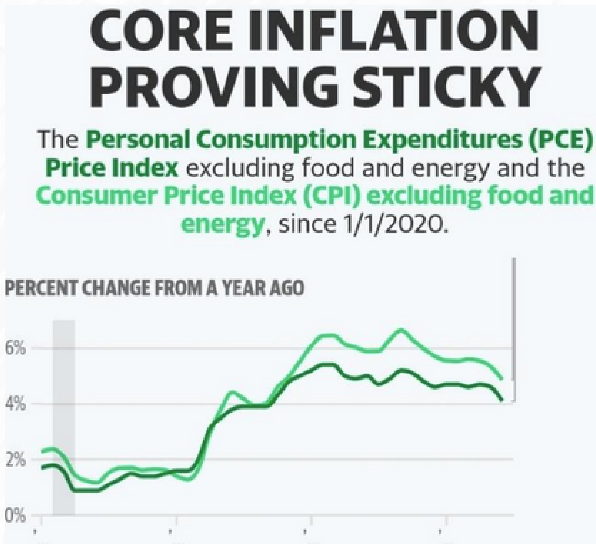
The Bank of Japan kept its negative interest rate intact but announced it would allow "greater flexibility" in its strict yield curve control policy by allowing movements in the range of **plus and minus 0.5%** without "rigid limits."

**Market reaction was along expected lines.**

The S&P 500 rose to its highest close - 4,582.23 - in more than 15 months. The index closed out its third straight winning week and its ninth in the last 11. The Dow rose to 35,459.29, and the Nasdaq jumped to 14,316.66.

In stock markets abroad, JGB's unexpected move rattled Asia-Pacific markets, with Japan's Nikkei 225 falling by over 2%, the yen gaining and the 10- year bond yield rising to its highest level since September 2014.

**U.S. economic data is moving in the 'right' direction.**




The Federal Reserve's preferred inflation metric grew in June at its slowest annual rate since September 2021.

Source: Bureau of Labor Statistics

The Personal Consumption Expenditures (PCE) Index grew 3.0% year over year in June, down from 3.8% the month prior and in line with expectations.

**"Core" PCE, which excludes the volatile food and energy categories, grew 4.1%, down from 4.6%** from the month prior and below the 4.2% economists surveyed by Bloomberg had expected.

A report from the Bureau of Labor Statistics showed **wage growth slowed in the second quarter.** Wages and salaries increased 4.6% in the three-month period from April to June after rising 5.1% in the first three months of the year.

The Fed's staff economists no longer see a recession, and the initial reading on **second-quarter GDP showed a surprise acceleration to 2.4% growth.**

**Consumer sentiment in the U.S. is highest since October 2021**

The final reading of the University of Michigan's **Consumer Sentiment Index for July came in at a reading of 71.6**, notably higher than the 64.4 last month and 51.5 in July 2022. This marks the highest reading for the index since October 2021.

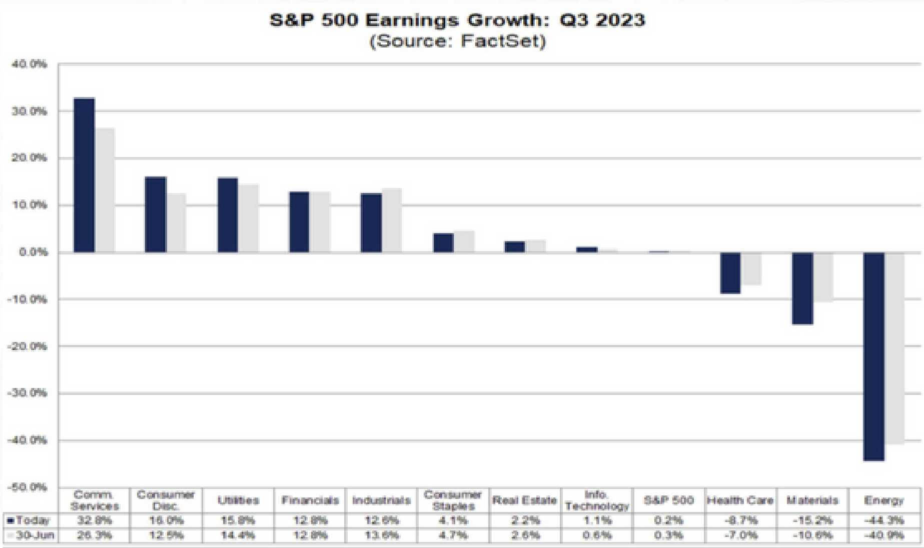
Per CME Fed watch, traders are giving the highest odds to a scenario where the benchmark rate stays in the current range after Fed meetings in September (76%), November (64.7%), and December (62.1%).

**What is our take?**

We believe that the stock market is due to pull back by 5-7% over the next several weeks. Progress thereafter will depend upon unfolding economic data. Investors may consider option-based structures that enable hedging of portfolios. It may also be a good idea to lengthen the duration of the bond portfolio to position for the possibility of a somewhat longer period of time before the Federal Reserve changes to accommodative mode

## Earning Update

At the mid-point of the Q2 earnings season, positive earnings surprises are above recent averages, but with a lower magnitude. **The S&P 500 reports - 7.3% blended earnings decline for Q2 2023, the largest YoY decline since Q2 2020.**



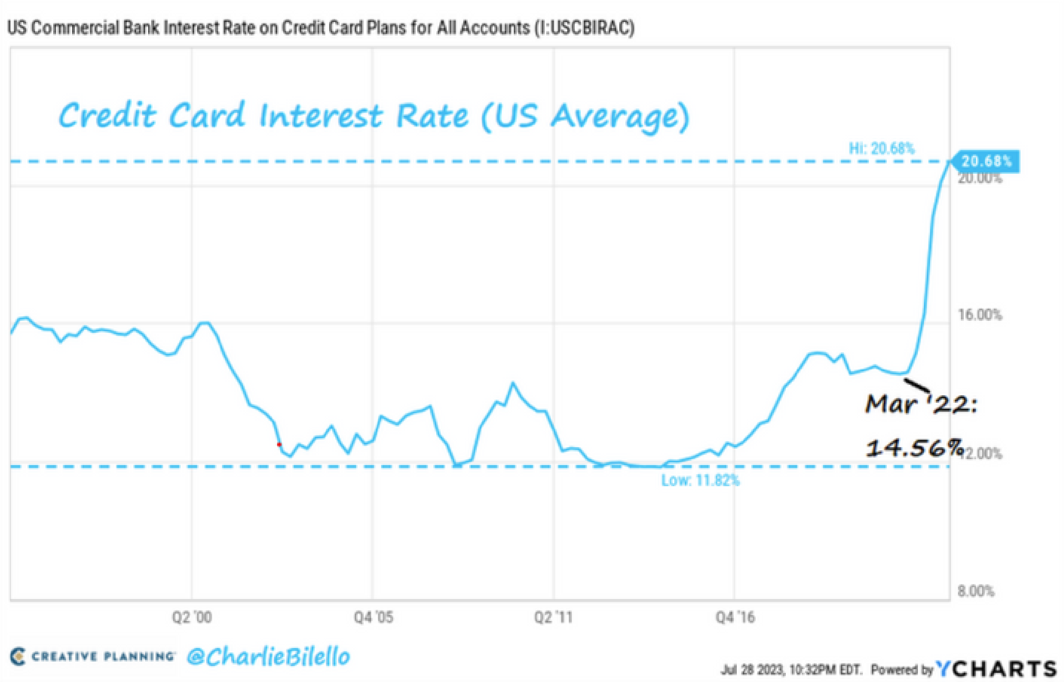
Six sectors show earnings growth, led by Consumer Discretionary and Communication Services, while five sectors report declines, led by Energy, Materials, and Health Care.

Analysts project earnings growth for H2 2023, with 0.2% for Q3 and 7.5% for Q4. The forward 12-month P/E ratio is 19.4, above the 5-year and 10-year averages.

170 S&P 500 companies are scheduled to report Q2 2023 results in the upcoming week.

# Chart of the week

The average interest rate on US credit card balances has moved up to 20.7%, the highest since at least 1994.



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