First to Market

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CAN EARNINGS SEASON REVIVE A LETHARGIC STOCK MARKET?

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Chart of the Day

Macro Research

Momentum: Generally positive after a sharp decline

Instances MSCI USA Momentum Index 5D <= -7% and Following Forward Returns
Since 2002

MSCI USA Momentum Forward Returns

	Instances	5D	Bear Market	+1W	+1M	+3M	+6M
27	3/23/2020	-8.6%		21.9%	31.0%	48.0%	63.5%
28	9/8/2020	-9.6%		4.8%	7.1%	13.0%	11.1%
29	2/25/2021	-7.6%		-4.8%	-2.0%	4.9%	11.9%
30	3/8/2021	-10.7%		8.6%	11.1%	14.6%	22.3%
31	1/21/2022	-7.1%	x	0.4%	-0.8%	-0.9%	-13.5%
32	2/23/2022	-7.7%	x	5.6%	9.9%	-10.0%	-4.6%
33	4/26/2022	-8.4%	x	1.0%	-3.1%	-6.0%	-3.7%
34	5/11/2022	-11.5%	x	0.1%	3.1%	3.9%	8.6%
35	6/14/2022	-8.4%	x	-0.6%	-0.5%	7.2%	9.3%
36	8/7/2024	-7.9%		8.4%	5.7%	16.6%	25.3%
37	3/10/2025	-8.6%		4.3%	2.5%	19.1%	25.4%
38	4/4/2025	-9.9%		8.5%	19.7%	32.7%	42.2%
39	6/10/2026	-7.5%		7.8%	3.6%	3.6%	3.6%

Last 3 years = strong gains

Source: Fundstrat, Bloomberg

*Instances counted use mutually exclusive 5-day periods, with only the first date below -7% being used in cases of overlap

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Good morning!

The S&P 500 keeps chugging along, but it doesn't feel like that. Investors are hoping corporate earnings can help there.

The broad-based index has traded in a narrow range since the beginning of June, down less than 0.1%. Big losses in highflying tech stocks like Micron and Sandisk haven't dragged the index down because stocks in other sectors like financials and industrials have stepped up.

The index is off just 0.5% from its all-time highs hit on June 2, but sentiment has worsened due to a shaky ceasefire giving away and sending oil prices inching higher. Investors fear that elevated oil prices could continue to stoke inflation, which would make it harder for the Federal Reserve to cut interest rates. As it is, traders are betting there's a 51% chance of a quarter-percentage point rate hike at the Fed's September meeting, up from 33% a month ago. Expectations of higher interest rates have put pressure on stocks.

However, if the stock market's previous tests can teach us anything, it's that it has become exceptionally good at jumping through hoops, so it's a possibility that the recent slate of bad news gets overlooked by stellar earnings. Like I say every quarter, earnings are the true driver of returns.

Tomorrow, investors will parse results from big banks including JPMorgan Chase, Bank of America, Goldman Sachs, and Wells Fargo. On Thursday, Taiwan Semiconductor will shed light on the semiconductor industry and Netflix will serve as a barometer for Big Tech earnings. The week will also feature inflation reports on Tuesday and Wednesday.

Analysts expect companies in the S&P 500 to report a 24% increase in profits from a year ago, which would mark the second consecutive quarter of above 20% growth rate, according to FactSet. Based on how earnings usually fare, there's a chance the index reports growth of roughly 29%, which would be the highest since the fourth quarter of 2021.

Early results suggest the K-shaped economy is widening. Delta Air Lines Chief Executive Ed Bastian said that fares can remain high despite lower oil prices in recent days because of the airline's pricing power.

But contrasting that, PepsiCo noted weakness in its North American food and beverage division. Discretionary spending is usually the first one to get hit when consumers are facing pressure from higher gas prices. "I think the consumer is worse than what we had anticipated, and it's driven mainly by gas prices," Chief Executive Ramon Laguarta said on the company's earnings conference call. International demand was stronger in comparison.

Stocks look cheap compared to the levels seen at the beginning of the year, thanks to strong earnings. The S&P 500 was trading at about 21.3 times its projected earnings over the next 12 months, below multiples of 22.2 on Jan. 1. On a historical basis, however, stocks are trading above their 10-year average of 19.1.

Share your thoughts

What are your expectations for this earnings season? Click here to send us your response.

✍Here's what a reader commented ✍

Q: What do you make of Meta's potential plans?

A: Meta's potential plan looks less like "throwing in the towel" and more like trying to improve the economics of an enormous AI buildout. If Meta has spare computing capacity, renting it out is rational. Idle GPUs earn nothing; rented GPUs can generate revenue, improve utilization, and help offset depreciation, power, networking, and financing costs. It could also give Meta a path into AI infrastructure services without immediately building a full AWS-style cloud business. The real issue is why the spare capacity exists.

Catch up with Fundstrat

We are constructive near term as this pullback in semis, memory and tech and momentum seems to have created a good risk/reward. And in the near-term we remain constructive. Next week is a heavier week for macro data. And Kevin Warsh will testify to Congress.

Technical

Thursday's semiconductor snapback looks likely to extend, though buying and holding this group could still prove tricky given the recent deterioration in daily momentum.

Crypto

I still get the impression that Robinhood’s growing prediction-market business is underappreciated. The company’s own monthly disclosures show event contract activity rising materially over the past year, suggesting the product was gaining traction even before the World Cup.

News We're Following

Breaking News

- Ceasefire disintegrates as US and Iran trade strikes over Strait of Hormuz CNN

Markets and economy

- Global tech stocks fall as Asian memory chipmakers hammered FT
- Frequent oil draws from U.S. Strategic Reserve push old system to breaking point WSJ

Business

- Apple sues OpenAI alleging trade secret theft, says scheme was 'at every level' CNBC
- DOJ investigating allegations against UAW President Shawn Fain BBG

- Deutsche Bank and UniCredit sue Linde over Russia sanctions losses FT
- TSMC posts record revenue in second quarter on AI demand REU

Politics/U.S.

- Graham’s death complicates myriad GOP goals in Congress CNBC
- Sen. Mitch McConnell says a fall led to his hospitalization AP
- Housing affordability bill becomes law without Trump’s signature NPR
- Minnesota governor mobilizes National Guard to battle wildfires in northern part of state REU

Overseas

- Ukraine's Zelenskiy dismisses Prime Minister Svyrydenko after only a year REU
- Typhoon Bavi batters eastern China, threatens days of heavy rain CNBC
- Heavy rain and flash floods in Bangladesh kill at least 50 BBC

Of Interest

- Hasbro’s ‘aging up’ strategy continues with a reattempt at adult Play-Doh WSJ
- Sam Neill, Jurassic Park and Peaky Blinders actor, dies aged 78 BBC

Overnight	
S&P Futures	-31 ▼ point(s) (-0.4% ▼)
overnight range:	-54 ▼ to -5 ▼ point(s)

APAC	
Nikkei	-1.92% ▼
Topix	-0.71% ▼
China SHCOMP	-2.06% ▼
Hang Seng	+0.16% ▲
Korea	-8.95% ▼
Singapore	+0.02% ▲
Australia	+0.03% ▲
India	+0.02% ▲

India	+0.02% ▲
Taiwan	+0.06% ▲

Europe

Stoxx	50 -0.15% ▼
Stoxx	600 -0.23% ▼
FTSE	100 -0.25% ▼
DAX	+0.01% ▲
CAC	40 +0.00% ▲
Italy	+0.13% ▲
IBEX	-0.05% ▼

FX

Dollar Index (DXY)	-0.02% ▼ to 100.93
EUR/USD	+0.09% ▲ to 1.1426
GBP/USD	-0.07% ▼ to 1.3394
USD/JPY	-0.29% ▼ to 162.15
USD/CNY	-0.04% ▼ to 6.7777
USD/CNH	+0.04% ▲ to 6.7792
USD/CHF	-0.19% ▼ to 0.8101
USD/CAD	+0.11% ▲ to 1.4138
AUD/USD	-0.16% ▼ to 0.6943

UST Term Structure

2Y-3M Spread widened	0.7bps to 42.3bps
10Y-2Y Spread widened	0.5bps to 35.4bps

30Y-10Y Spread widened	0.2bps to 49.7bps

USD HY OaS

All Sectors	-1.8bps ▾ to 299bps
All Sectors ex-Energy	-1.4bps ▾ 282bps
Cons Disc	-3.8bps ▾ 291bps
Indu	-1.4bps ▾ 192bps
Tech	-6.8bps ▾ 440bps
Comm Srvcs	-0.3bps ▾ 435bps
Materials	+2.3bps ▴ 298bps
Energy	-2.1bps ▾ 214bps
Fin Snr	-0.8bps ▾ 283bps
Fin Sub	-0.1bps ▾ 260bps
Cons Staples	+0.3bps ▴ 225bps
Healthcare	-1.0bps ▾ 266bps
Utes	-1.4bps ▾ 201bps *

DATE	TIME	DESCRIPTION	ESTIMATE	LAST

DATE	TIME	DESCRIPTION	ESTIMATE	LAST
7/14	6:00 AM	Jun Small Biz Optimisum	95.7	95.3
7/14	8:30 AM	Jun CPI m/m	-0.1	0.5
7/14	8:30 AM	Jun Core CPI m/m	0.2	0.2
7/14	8:30 AM	Jun CPI y/y	3.8	4.2
7/14	8:30 AM	Jun Core CPI y/y	2.9	2.9
7/14	4:00 PM	May Net TIC Flows	n/a	26.08
7/15	8:30 AM	Jun PPI m/m	0	1.1
7/15	8:30 AM	Jun Core PPI m/m	0.3	0.4
7/16	8:30 AM	Jun Retail Sales m/m	0.3	0.9
7/16	10:00 AM	Jul Homebuilder Sentiment	35	35
7/17	8:30 AM	Jun Import Price m/m	-0.6	1.9
7/17	10:00 AM	Jul P UMich 1yr Inf Exp	4.4	4.6
7/17	10:00 AM	Jul P UMich Sentiment	51	49.5

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