Weekly Market Commentary
May 2nd, 2022

More Speed Bumps Ahead For The Markets?

Earnings-growth outlook is holding up, but companies are not immune to pressures

Last week was the busiest of the first-quarter earnings season, with more than one-third of the S&P 500 companies reporting results, including the mega-cap tech names. Alphabet (Google), Amazon, Apple, Meta (Facebook), and Microsoft together make up 21% of the S&P 500, and, because of that, their profit outlook can swing estimates for the overall market. Results were mixed, with signs that growth is slowing but also evidence that long-term trends, like digital transformation, remain alive and well. Some of the key themes that have stood out to us so far this earnings season are

- Comparisons to year-ago results are becoming challenging due to the rapid growth achieved in 2021. This dynamic is more pronounced in areas that benefited from the pandemic, like e-commerce. Yet, cloud demand remains strong.

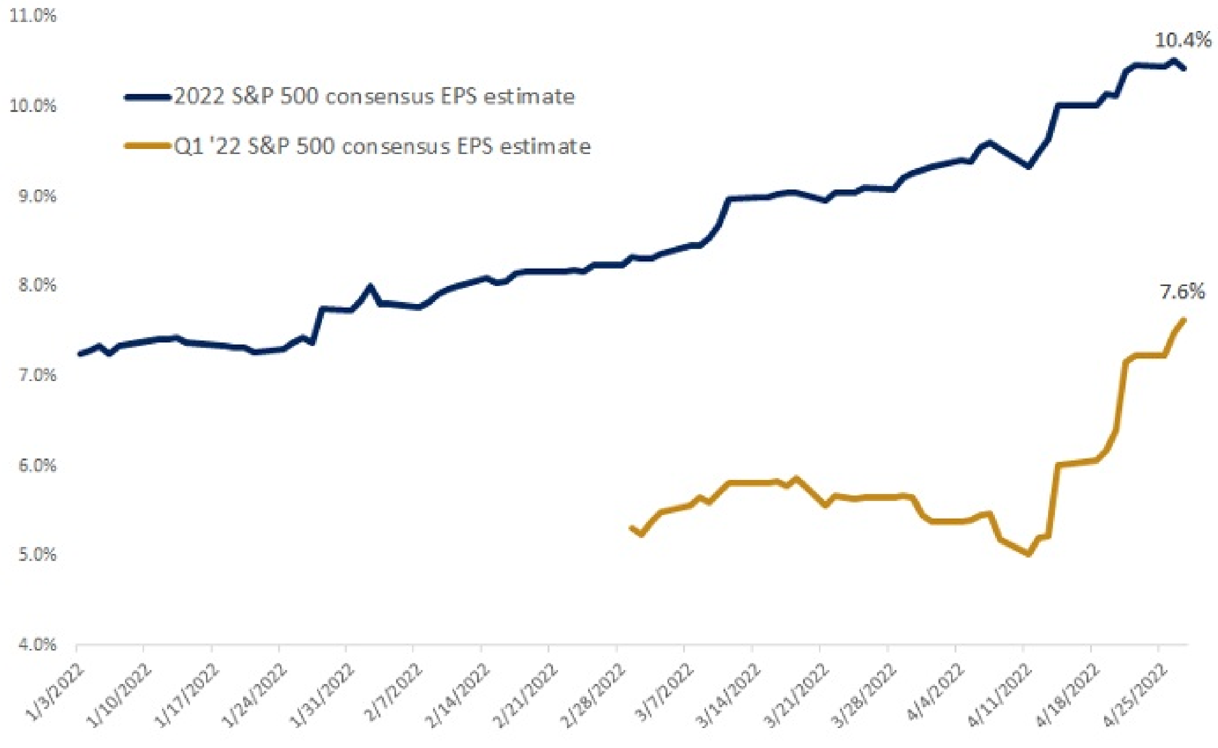
- Similar to the trend observed in the first-quarter GDP numbers, the shift in spending toward services is benefiting companies in industries exposed to the economic reopening, particularly leisure and travel.

- Consumer spending remains resilient even in the face of higher borrowing costs and elevated inflation. Management commentary from Visa pointed to solid trends through the first three weeks of April, and the Synchrony Financial CEO cited data showing that two-thirds of consumers have only spent a portion of their stimulus checks, and

- Pricing power has continued to cushion profitability, but supply-chain pressures, higher input costs, and labor costs are making it harder to sustain high-profit margins.

The bottom line: Corporate guidance has so far provided some reassurance that S&P 500 earnings can still grow between 5% -10% this year, partly offsetting the headwind of declining valuations. Value investments and companies that benefit more from the economy returning to normal face easier comparisons and better demand trends in the short term. Once economic growth falls to a below-trend pace, possibly in 2023, leadership could once again rotate back to tech and the more growth parts of the market.

Earnings estimates for Q1 and for the full year have continued to trend higher



Source: FactSet

The graph shows consensus S&P 500 earnings estimates for the first quarter and the full year, which have continued to move higher.

What comes next?

- With equity markets now at the bottom of their trading range established over the past three months, sentiment is fragile, and, as a result, volatility could stay elevated. This week's Fed meeting and the next inflation reading on May 11 could possibly be the primary catalysts for the market's direction in the near term.

- The Fed is likely to confirm its hawkish stance by hiking rates 0.5% for the first time since 2000, and also formally launch the shrinking of its bond holdings, the so-called quantitative tightening. With the bond market already expecting 2.5% of tightening this year, including three 0.5% hikes over the next three meetings, the bar for a hawkish surprise is high. Validation of what already is expected could prove to be anticlimactic, with equity markets rallying as a result.

- Last week's growth-slowdown concerns triggered a rally in bonds, which acted as a safe haven. Despite the recent narrative driven by this year's sharp rise in yields, bonds still offer diversification benefits, especially with prices were beaten down helping smooth out returns during times of volatility. That said, there could be some more upside in yields. In the past four tightening cycles, the 10-year yield peaked on average two months before the final Fed rate hike, and we expect this last rate hike possibly in the back half of 2023. However, as the 10-year yield likely approaches 3.0% - 3.5%, the risk-reward for bonds becomes more attractive.

- In the absence of any major excesses, the economy and financial markets can absorb the impact of the multiple speed bumps that lay ahead without derailing the outlook. As investors are trying to balance the still-healthy economic conditions and the headwinds of Fed rate hikes alongside geopolitical risks and high inflation, we recommend a focus on quality, diversification, and timely rebalancing. The backdrop for financial markets is now more challenging than it has been over the past 18 months, but the solid fundamentals can help act as shock absorbers, providing support.

(Source: oXYGen & Jones)

Markets For The Week

INDEX	CLOSE	WEEK
Dow Jones Industrial Average	32,977	-2.47%
S&P 500 Index	4,132	-3.28%
NASDAQ	12,335	-3.93%
MSCI EAFE	2,013	-5.36%
10-yr Treasury Yield	2.93%	1.03%
Gold	$1,897	-1.81%
Bonds	$102.87	-.08%

Source: Reuters/Wall Street Journal

Here's How To Buy Work Clothes On A Budget

Source (CNBC)

As more people head back to the office, they may not be able to rely anymore on their work wardrobe from more than two years ago.

Their tastes or size may have changed during the pandemic, or their company might have amended expectations around professional attire.

Restocking your closet can add up. Fashion bloggers shared tips on how to prepare for the return to work without overspending.

Many companies are revising their dress code expectations, and you may discover that the jeans and sneakers you've been living in are now acceptable in the office.

To see if the shift has occurred at your office, pay attention to how management is dressing, or strike up a conversation with your manager.

If your company has moved to a hybrid work model, in which you're still permitted to work from home a few days a week, you also won't need as much office-friendly attire.

If your time in the office is half of what it was two years ago, you should consider cleansing your professional wardrobe by half.

Don't be too quick to toss the articles you wore back when pandemics were more the terrain of books and movies than real life. Some clothes stay relevant.

Don't feel pressured to replenish your work wardrobe overnight.

Start by creating a list of essentials and prioritizing them based on how practical they are and then tackle the list by purchasing a few items each month.

You may want to set an allowance for yourself. Experts generally recommend that you spend no more than 10% of your take-home pay on clothing.

For high-quality clothing, stalk sale sites like Gilt, Rue La La, and Cettire. When she's looking for more affordable workwear that's still stylish, she turns to Express, Mango, Nordstrom, and H&M.

Earnings Highlights This Week

Amazon: Amazon on Thursday gave a revenue forecast that trailed analysts' estimates. Growth rates are at their slowest since the dot-com bust in 2001. The company recorded a $7.6 billion loss on its investment in electric vehicle maker Rivian.

Apple: Apple's revenue grew nearly 9% year over year during the quarter ended in March. But shares fell nearly 4% in extended trading after Apple CFO Luca Maestri warned of challenges in the current quarter, including supply constraints that could hurt sales by up to $8 billion. The tech giant authorized $90 billion in share buybacks.

Twitter: Twitter reported earnings for the first quarter of 2022. It could be one of its last as a public company after its board agreed to sell to Elon Musk for $44 billion. Before the deal was formally announced on Monday, some analysts speculated that Twitter might have wanted to finalize the deal before reporting earnings this week, anticipating a disappointing quarter.

Merck: Merck beat Wall Street estimates for its top and bottom lines, reporting earnings of $2.14 per share on $15.9 billion in revenue. The company raised its 2022 earnings guidance to between $7.24 and $7.36 per share on $56.9 billion to $58.1 billion in revenue. Merck's growth was driven by its Covid treatment molnupiravir, its cancer treatment Keytruda and its HPV vaccine Gardasil.

McDonald's: McDonald's first-quarter earnings and revenue topped Wall Street's estimates, fueled by higher prices in the U.S. and strong international sales growth. The company said the suspension of operations in Ukraine and Russia cost $127 million, or 13 cents per share, in the quarter. In the United States, same-store sales increased 3.5%, surpassing Street Account estimates of 3.3%.

News and Notes

Are Subscriptions The Biggest Waste Of Money?

Where are the big areas where people are wasting money?

- Subscriptions – Recent study showed 70% of Americans wasted $50 a month or more on subscriptions they don't need.
- Extended Warranties- Most people don't collect on these let alone read them.
- The word SALE- just because something is on SALE doesn't mean it's a DEAL.

Inflation is really hurting families at the grocery store, are there ways to stop waste here?

- 40% of all food is wasted-Shop your pantry and refrigerator before you go to the grocery store – best way to make a list before you hit the grocery store.
- Right now, shop store brands, only buy in bulk what's on sale, and buy fruits and vegetables that are in season.
    - Use apps like Ibotta and Checkout 51 to save instant money.

Are there any hidden waste areas people don't think about?

- Your closet- 2 years into the pandemic sell what you don't want and what you don't need including collectibles which are at all-time highs in terms of prices.
- Your frequent flier points- By not using them now, you are wasting almost 10% a year in reduced value because of high inflation.

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