MARKETS AND ECONOMY

Schwab Market Update: Stocks Rise and Post a Weekly Gain

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U.S. stocks are solidly higher in early-afternoon trading as equities look to close out the week with a strong gain after the S&P 500 has posted 10 out of last 11 weeks in the red.

U.S. stocks closed solidly higher and, in the process, snapped a three-week losing streak for the broad-based S&P 500 Index which had posted weekly declines in 10 out of last 11 weeks. The sharp rebound came as investors largely brushed aside lingering concerns about a recession as the Fed, and other global central banks have aggressively hiked rates to try to tamp down the persistent surge in inflation. Yields moved higher as U.S. Treasuries gave back some of a recent rally this week that put noticeable downside pressure on yields. Meanwhile, the U.S. dollar extended its weekly decline after recently rallying to multi-decade highs. Crude oil prices rebounded from the week's solid drawdown, and gold saw a modest increase. The economic calendar offered some upbeat reports as new home sales unexpectedly jumped, and although consumer sentiment hit a record low, the inflation outlook components improved. In equity news, FedEx missed quarterly estimates but offered upbeat guidance, while all 34 financial institutions that participated in the Fed's annual stress test passed. Asia finished out the week in positive fashion and Europe closed broadly higher as the global markets show some resiliency in the face of recession worries.

The Dow Jones Industrial Average gained 823 points (2.7%) to 31,501, while the S&P 500 Index increased 116 points (3.1%) to 3,912, and the Nasdaq Composite advanced 375 points (3.3%) to 11,608. In heavy volume, 7.7 billion shares of NYSE-listed stocks were traded, and 9.0 billion shares changed hands on the Nasdaq. WTI crude oil rose $3.35 to $107.62 per barrel. Elsewhere, the gold spot price inched up $0.50 to $1,830.30 per ounce, and the Dollar Index declined 0.3% to 104.16. Markets were higher for the week, as the DJIA gained 5.4%, the S&P 500 increased 6.5%, and the Nasdaq Composite rose 7.5%.

Volatility in the equity markets remained this week but the equity markets were positive and the S&P 500 exited bear market territory after joining the NASDAQ and Russell 2000 recently. Stocks showed some resiliency in the face of high inflation forcing the Fed to get more aggressive with its monetary policy as Chairman Jerome Powell reiterated this week on Capitol Hill that the Central Bank will need to remain aggressive to restore price stability. His comments came after the Fed raised the target for the fed funds rate by 75 basis points (bps) last week and suggested more hikes of that magnitude could come as discussed by Schwab's Chief Investment Strategist Liz Ann Sonders in her article, **Fed Goes for Inflation's Jugular With 75bps Rate Hike**. Liz Ann examines the rate hike and how the Fed vowed to forcefully tackle inflation, while conceding the path to a soft landing has become "more challenging." Recession chatter has picked up as a result, contributing to the market volatility.

Amid this market backdrop, Liz Ann notes in her article, **Panic Is Not a Strategy—Nor Is Greed**, how disciplined investing helps investors navigate through volatile environments. You can follow Liz Ann on Twitter: @LizAnnSonders.

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FedEx Corporation (FDX $243) reported adjusted fiscal Q4 earnings-per-share (EPS) of $6.87, one penny shy of the FactSet estimate, as revenues rose 8.0% year-over-year (y/y) to $24.4 billion, compared to the Street's forecast of $24.5 billion. FDX said it saw lower shipment demand due to slower economic growth and supply chain disruptions, as well as higher purchased transportation and wage rates, though it saw higher revenue per package, including increased fuel surcharges. However, the company issued adjusted fiscal 2023 EPS guidance that topped expectations. The company said its foundational investments have set the stage for a strong fiscal 2023 and as it moves forward its focus will be on revenue quality and lowering its cost to serve. Shares are nicely higher.

The Financials sector was in focus after all 34 of the institutions passed the Federal Reserve's annual stress testing of their balance sheets, which showed they could withstand a severe recession. The results were not surprising but they do pave the way for potentially more capital to be returned to shareholders in the form of dividend increases and share buybacks. Financials were among the best S&P 500 performers and helped lead a broad-based sector rally.

Consumer sentiment notches a record low, new home sales rise more than expected

The June final **University of Michigan Consumer Sentiment Index** (chart) was revised unexpectedly to a record low 50.0 level, from the preliminary 50.2 figure, where the Bloomberg consensus estimate called for it to remain. The downward revision came as the current conditions portion of the survey was adjusted to the downside, while the expectations component was revised higher but remained depressed. The overall index was below May's 58.4 level and the all-time low came as both current conditions and expectations were down sharply month-over-month (m/m). The 1-year inflation forecast was revised lower to 5.3% from the preliminary estimate of 5.4%, where it was expected to remain, and matching May's rate. The 5-10 year inflation forecast was revised lower to 3.1%, from the preliminary read of 3.3%, where it was expected to remain, but above May's 3.0% rate.

The University of Michigan told Bloomberg that overall, the late-June reversion in long run inflation expectations was generated by growth in the share of consumers expecting extremely low inflation in the years ahead, while about half expressed bleak views about the risks of recession or unemployment.

In housing news, **new home sales** (chart) jumped 10.7% m/m in May to an annual rate of 696,000 units, well above forecasts calling for a rate of 590,000 units, and above April's upwardly-revised 629,000-unit level. The median home price rose 15.0% y/y to $449,000. New home inventory declined to 7.7 months from April's level of a 8.3 months of supply at the current sales pace. Sales increased solidly m/m in the South and jumped in the West, while falling in the Midwest and tumbling in the Northeast. Sales in the South and West were modestly higher y/y, while sales in the Northeast and the Midwest were sharply lower. New home sales are based on contract signings, offering a timelier read on housing activity compared to the larger contributor of **existing home sales**, which are based on closings.

Treasuries lost ground after seeing some gains this week that put downside pressure on yields as the markets appeared uneasy about the economic implications of an aggressive Fed to fight persistent inflation, with recession chatter heating up. Financial conditions continued to tighten amid the uneasiness and market skittishness was exacerbated by the prospect of the Fed tightening policy amid the backdrop of a slowing economy, which was illustrated by this week's larger-than-expected slowdowns in manufacturing and services sector growth that was reported by S&P Global.

For more on the Fed's actions check out our latest WashingtonWISE podcast, **Fed Gets Aggressive: What's It Mean for Investors?**, featuring Schwab's Chief Fixed Income Strategist Kathy Jones. Also, be sure to follow Kathy on Twitter: @KathyJones.

The yield on the 2-year Treasury note was up 2 bps to 3.04%, the yield on the 10-year note rose 6 bps to 3.13%, and the 30-year bond rate increased 9 bps to 3.26%.

Next week's domestic economic calendar will bring some key reports that could garner attention, with reports worth noting including; preliminary **durable goods orders**, **Consumer Confidence, personal income** and **spending**, **weekly initial jobless claims**, and **the ISM Manufacturing Index**. Also, the Fed will stay in focus as **Chairman Jerome Powell will participate in a European Central Bank summit**, while notorious hawk St. Louis Fed President James Bullard will also speak next week.

Europe moves higher as the global markets rebound

European equities closed higher, as the Asian markets broadly advanced and as U.S. stocks extend strong weekly gains to provide a positive backdrop. The equity markets have shown some resiliency in the face of continued volatility and rising concerns about a potential global recession as monetary policies on both sides of the pond tighten to try to cool off festering high inflation pressures. Schwab's Chief Global Investment Strategist Jeffrey Kleintop, CFA, offers his latest article, **Recession: The Risk Is in the Reversal**, where he discusses how investors often notice the overall direction of markets and how missed changes in asset classes under the surface could see a shark attack take a big bite out of unprepared portfolios. You can follow Jeff on Twitter: @JeffreyKleintop. Most markets were higher for the week, except for Germany, as the markets digested some lackluster data. U.K. retail sales declined in May, while German business confidence for June deteriorated, with expectations leading to the downside. The euro and British pound nudged higher versus the U.S. dollar and bond yields in the Eurozone rebounded after seeing heavy pressure as of late on the recession worries, while yields in the U.K. were lower.

The U.K. FTSE 100 Index was up 2.7%, Germany's DAX Index rose 1.6%, France's CAC-40 Index gained 3.2%, Spain's IBEX 35 Index advanced 1.7%, Italy's FTSE MIB Index increased 2.3%, and Switzerland's Swiss Market Index rallied 3.5%.

Asia higher to close out the week

Stocks in Asia finished out the week in positive fashion, with the recent drops in global bond yields appearing to offer a reprieve and boost growth-related sectors, notably Technology. However, the downward pressure on yields suggests that the markets remain skittish regarding a potential recession unfolding amid the backdrop of tightening monetary policies in North America and Europe. Meanwhile, expectations remained that China could deploy further stimulus measures to help stabilize its economy that has slowed and been exacerbated by the recent COVID-induced lockdowns. Schwab's

Jeffrey Kleintop discusses in his article, **Recession in China?**, how China's economy and consumer market has likely slipped into a recession, at least by China's standards. Jeff takes a look at the short-term and long-term impacts of any extended disruption of the lockdowns on consumer spending and business output. In economic news, Japan's national consumer price inflation held at April's 2.5% y/y pace in May, matching expectations but still well above the 1.2% rise seen in March.

Japan's Nikkei 225 Index rose 1.2%, with the yen continuing to stabilize and trim some of a recent plunge versus the U.S. dollar that has come as the Bank of Japan holds onto its ultra-loose monetary policy. China's Shanghai Composite Index increased 0.9%, and the Hong Kong Hang Seng Index gained 2.1%. Australia's S&P/ASX 200 Index advanced 0.8%, India's S&P BSE Sensex 30 Index traded 0.9% to the upside, and South Korea's Kospi Index led the way, rallying 2.3%.

Next week the international economic calendar will be dominated by a flood of June Manufacturing PMIs, headlined by the first looks at activity out of China and India. Other reports due that deserve a mention include: **China**—industrial profits. **Japan**—retail sales and the Q2 Tankan survey of manufacturing sentiment. **Eurozone**—consumer price inflation estimate, and **German** retail sales.