

Summer Shakeout Amid Positive EPS Season

The stock market in mid- to late-July experienced its worst stretch of the year, including its worst week since 2022. The strong start to the month sent the S&P 500 and the other major indices to all-time highs. Even following the late-month selloff, stocks entered the final partial trading week of July barely changed for the month.

The stasis in the market is consistent with ongoing uncertainty. The nature of the presidential election changed dramatically over the past month. The Fed appears to be teeing up 50 basis points (bps) or possibly even 75 bps of rate cuts by the end of the year. However, no cuts appear likely until mid-September, leaving investors dangling. Consumers too are waiting for rate cuts, whether they know it or not, because a lower fed funds rate is the linchpin to getting the overall interest rate environment down from its multi-year peak.

Amid the uncertainty, the second-quarter earnings season mostly has been a bright spot. While good past-quarter earnings are always important, investors hold their breaths regarding current-quarter outlooks. Companies have generally reaffirmed the moderately positive outlook for the full year, which is still trending toward high single-digit to low double-digit EPS growth for 2024.

Up and Down in July

The S&P 500, which came into mid-year up 14.5% for 2024, piled on an additional 3.8% in the first half of July. The index was up 18.8% for the year at its all-time closing peak of 5,667 on 7/16/24. By 7/19/24, the S&P 500 had shed over 100 points. And by 7/25/24, the index had lost more than 260 points from its all-time high, to close at 5,399. Given the strong start to the month, followed by equally strong selling, the S&P 500 entered the final partial trading week of July up 14.4% for the year – barely budged from where it stood at mid-year.

The Trump assassination attempt and the switch in Democratic presidential contenders occurred in the space of two weekends. However, rather than point to political upheaval, most investors attributed the July selling to a much-needed correction in extremely overbought names in the Information Technology and Communication Services sectors. While some wealth flowed out of all equities in the late-July period, much of the proceeds from tech stock redemptions flowed into other sectors.

With three trading days remaining in the month as of 7/26/24, Information Technology (IYW) was down 4% for the month of July; and Communication Services (XLC) was down just under 2%. Where did the money go? Lots flowed into the Financial sector (IYF), which was up 7% for the month. Upcoming cuts in the fed funds rate will pinch banks' net interest margins.

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ECONOMIC & MARKET COMMENTARY (CONT.)

However, the 2Q earnings season for the sector has been highly positive, featuring significant recovery in fee-based businesses such as investment banking. Those upcoming lower interest rates can also be expected to rekindle loan and mortgage growth, which have been an ongoing negative amid generally positive bank earnings results.

Other winning sectors in July include Industrials (IYJ), up 4.5%; Utilities (IDU), up 3.3%; Healthcare, up 2.9%; Consumer Staples, up 2.5%; and Materials, up 2.4%. Most of these sectors rose with the market early in the month and then were able to hold onto their gains on generally positive second-quarter earnings results.

As we prepared this report, the market on 7/29/24 was oscillating, rising in the morning on earnings optimism toward traditional growth leaders and then selling off by midday on fears those companies would disappoint. The market response to upcoming earnings and other major non-technology companies could determine not just the July outcome, but also the market's performance in August and into summer-end.

Second-Quarter Earnings Season

The above-cited July 29-through-August 2 period will be the biggest week in 2Q24 EPS season, with about one-third of S&P 500 components companies reporting results. We will be sure to weigh in on the biggest earnings week, which culminates with equally big economic news, the nonfarm payrolls for July on 8/2/24.

In the interim, and based on 2Q24 EPS data through 7/26/24, the second-quarter earnings season has been a success so far. With just over 180 companies (36%) of S&P 500 component companies reporting, second-quarter 2024 earnings from continuing operations are up 9.1% on a share-weighted basis compared with 2Q23 EPS. According to Bloomberg, 2Q24 earnings are up 14.8% on a market-cap-weighted basis. This premium of market-cap-weighted to share-weighted EPS growth is consistent with recent quarters and is reflective of the earnings outperformance of the largest capitalization companies compared with small and mid-caps.

According to the other earnings compiling agencies, FactSet reports 9.8% earnings growth for 2Q24 as of 7/26/24; and Refinitiv is reporting 12% earnings growth. Variation in performance measurements among FactSet, Refinitiv and Bloomberg reflect minor differences in calculating continuing operations earnings as well as different prior-year baselines. For the remainder of our 2Q earnings report card, we will mainly source Bloomberg data unless otherwise noted.

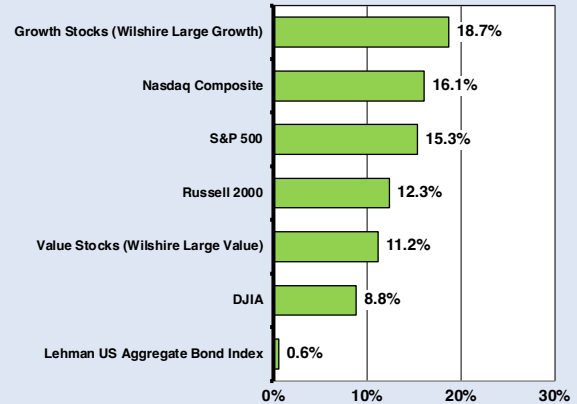
An unusually high percentage of companies (31%) have reported negative earnings for 2Q24. The average EPS

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MAJOR INDEX

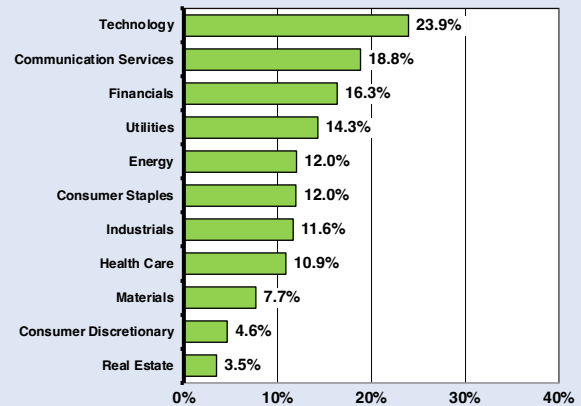
DATA AS OF JULY 26, 2024

Year-To-Date Return



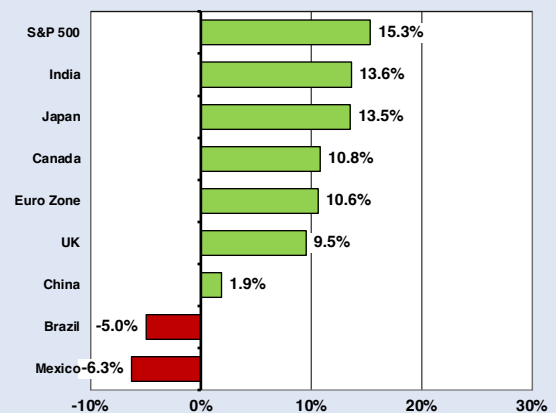
SECTOR PERFORMANCE

Year-To-Date Performance



INTERNATIONAL EQUITY MARKET PERFORMANCE

Year-To-Date Return



Source: Dow Jones, Argus Research

ECONOMIC & MARKET COMMENTARY (CONT.)

decline for the negative-earnings group, which is heavily weighted in Energy, Materials, and Real Estate, is 16%. For the 69% of companies reporting positive EPS, average earnings growth is a robust 22%. A key reason investors are optimistic about second-half 2024 earnings growth is that the negative drag from Energy, Materials, and Real Estate is expected to diminish in 3Q24 and particularly in 4Q24.

About 79% of companies have reported positive EPS surprises in 2Q24, compared with (again) a high 14% of companies reporting negative surprises. According to FactSet, 78% of companies have reported positive EPS surprises. These percentages are above the 10-year average of 74%. For these companies, the median beat against consensus estimates is 5.2% (FactSet has it at 4.4%). For the first time in several quarters, the median beat against expectations is below the 10-year average of 6.8%.

At the sector level, the strongest earnings growth is coming from Financial, Information Technology, and Utilities – all up in the 16%-17% range year over year. Communication Services 2Q24 earnings are up 15%. Other sectors reporting positive EPS growth include Healthcare, Consumer Discretionary, Consumer Staples, and Industrials, in descending order; all are up in the 2%-4% range. As noted, Energy, Materials, and Real Estate are all down; Materials is off in high single-digits, while Energy and Real Estate earnings are down 20%-21% from a year earlier.

From a statistical standpoint, 36% would be considered a fairly reliable and predictive sample size. Timing of the remainder of 2Q24 earnings season, however, may introduce some variability. Over 61% of Financial companies have already reported, in what has been a better-than-anticipated season for the sector. Only 23% of Energy companies have reported; given similar sensitivity off all component companies to key commodities (oil and natural gas), the contribution from this sector will likely continue to pull down overall results.

The swing sector is likely to be Information Technology. Fewer than 30% of tech companies have reported. Further, 2Q earnings from the heavy hitters (Apple, Microsoft, etc.) are not reflected in the data discussed above. Earnings from the big Healthcare, Industrial, and Consumer Discretionary (AMZN) companies could also play an outsized role.

For 2Q24, Argus continues to model high-single-digit continuing-operations EPS growth for S&P 500 component companies. We see a higher likelihood that our forecast misses on the upside than on the downside. In other words, once all the component companies are tallied, we are more likely to see low-double-digit EPS growth for 2Q24 than we are to see mid-single-digit EPS growth.

Conclusion

Investors will veer away from earnings analysis for a few hours on the morning of 8/2/24 to assess the state of the labor economy. Argus Chief Economist Chris Graja, CFA, forecasts 185,000 new nonfarm payroll jobs for July, approximately in line with the 188,000 consensus forecast. The bigger focus will be on the unemployment rate, which was 4.1% in June. If July unemployment hits 4.2%, that would trigger the Sahm indicator. When unemployment rises 50 bps within a cycle, the Sahm rule posits, recession follows or has already begun. In this scenario, deteriorating labor markets become “a self-reinforcing feedback loop,” according to former New York Fed president William Dudley.

Secular and demographic factors may argue for structurally lower unemployment rates over the long term. This includes ongoing retirements from within the huge Baby Boomer cohort, and a smaller pool of workers from the generational cohorts that follow available to fill vacant boomer positions. Triggering the Sahm rule, nonetheless, would be a warning sign and presumably a wake-up call for the Fed to focus on the fight in front of it (preventing recession) and not the nearly won war against inflation.

Jim Kelleher, CFA,
Director of Research

TECHNICAL TRENDS COMMENTARY

The stock market tried its best to rally on July 29, but with major EPS reports, a Fed decision, and an employment report looming, higher prices attracted sellers and the major indices finished flat. The market will either continue lower in the near term or the pullback will end and new highs are just around the corner.

We would bet on the former, as there is no indication from the recent price action of the S&P 500, Nasdaq, and Nasdaq 100 that the selling is over. While the tech-heavy indices, industries, and mega caps have worked off overbought momentum conditions on a daily and weekly basis, we have not yet cycled into oversold territory on a daily basis. Do we have to? Absolutely not -- but it probably would be healthy.

The last time Technology indices/stocks were oversold on a daily basis was on April 19 -- but just barely, with the 14-day relative strength index reaching 30. The last time tech was oversold on a weekly basis was in mid-2022 -- and prior to that, during the pandemic. Long-term relative strength leadership rarely cycles into oversold territory on

a weekly or monthly basis except during mega meltdowns and crashes.

So there is a smell of panic in Technology land as the "can't miss" semiconductor stocks are stinking it up. But at least the money fleeing those stocks is being moved into other areas of the market. The NYSE, Dow Jones Industrials, the S&P 500 equal weight, the S&P MidCap 400, the Russell 2000, and the S&P Small Cap 600 continue to catch a bid -- with most remaining near all-time highs.

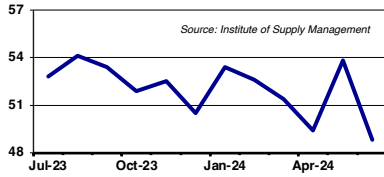
As of this writing, the iShares Semiconductor ETF (SOXX \$220.58) has cratered almost 17% over the 14 sessions, its largest decline in that time period since June 2022 (which was during a tough bear market for Information Technology). There is a cluster of support near \$200, which includes the last low in April, trendline support off the lows since October 2022, and a 38.2% retracement of the bull market.

Distribution days on the Nasdaq 100 (QQQ) and the SOXX continue to add up as we count seven on both ETFs over the past 14 days.

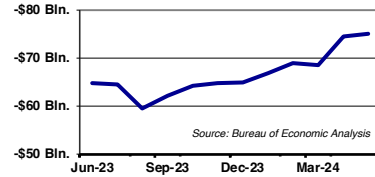
Mark Arbeter, CMT

ECONOMIC TRADING CHARTS & CALENDAR

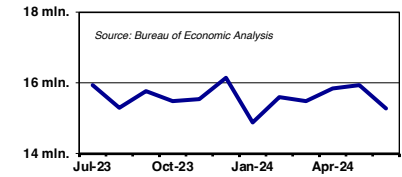
Release: **ISM Services Index**
 Date: 8/5/2024
 Month: July
 Previous Report: 48.8
 Argus Estimate: 50.0
 Street Estimate: NA



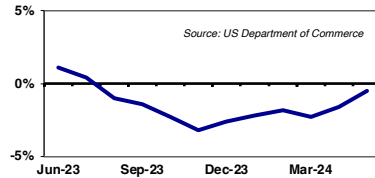
Release: **Trade Balance**
 Date: 8/6/2024
 Month: June
 Previous Report: -\$75.1 Bln.
 Argus Estimate: -\$71.0 Bln.
 Street Estimate: NA



Release: **Total Vehicle Sales**
 Date: 8/7/2024
 Month: July
 Previous Report: 15.28 mln.
 Argus Estimate: 16.00 mln.
 Street Estimate: NA



Release: **Wholesale Inventories**
 Date: 8/8/2024
 Month: June
 Previous Report: -0.5%
 Argus Estimate: 0.2%
 Street Estimate: NA



Previous Week's Releases and Next Week's Releases on next page.

ECONOMIC TRADING CHARTS & CALENDAR (CONT.)

Previous Week's Releases

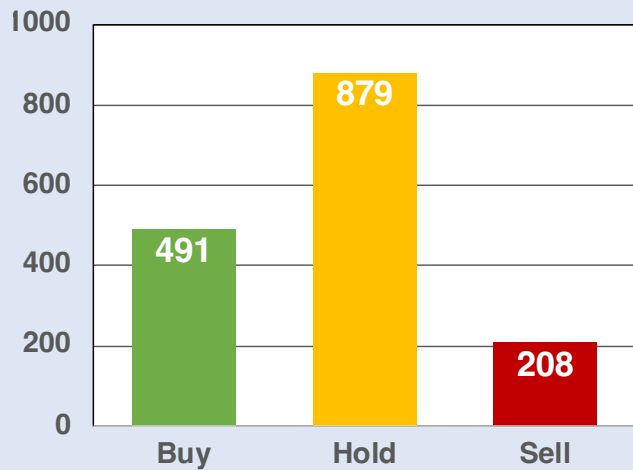
Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
30-Jul	Consumer Confidence	July	97.8	101.0	99.8	100.3
1-Aug	ISM Manufacturing	July	48.5	49.0	48.9	NA
	ISM New Orders	July	49.3	49.8	NA	NA
	Construction Spending	June	6.4%	5.8%	NA	NA
	Nonfarm Productivity	2Q	0.2%	2.0%	1.6%	NA
	Unit Labor Costs	2Q	4.0%	3.6%	NA	NA
2-Aug	Nonfarm Payrolls	July	206 K	185 K	188 K	NA
	Unemployment Rate	July	4.1%	4.1%	4.1%	NA
	Average Weekly Hours	July	34.3	34.3	34.3	NA
	Average Hourly Earnings	July	3.9%	3.9%	NA	NA
	Factory Orders	June	0.9%	0.2%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
13-Aug	PPI Final Demand	July	2.6%	NA	NA	NA
	PPI ex-Food & Energy	July	3.0%	NA	NA	NA
14-Aug	Consumer Price Index	July	3.0%	NA	NA	NA
	CPI ex-Food & Energy	July	3.3%	NA	NA	NA
15-Aug	Industrial Production	July	1.6%	NA	NA	NA
	Capacity Utilization	July	78.8%	NA	NA	NA
	Retail Sales	July	2.3%	NA	NA	NA
	Retail Sales ex-autos	July	3.4%	NA	NA	NA
	Business Inventories	June	1.6%	NA	NA	NA
	Import Price Index	July	1.6%	NA	NA	NA
16-Aug	Housing Starts	July	1,353K	NA	NA	NA
	U. of Michigan Sentiment	August	66.4	NA	NA	NA

SPECIAL SITUATIONS & SCREENS

ARGUS RESEARCH RATING DISTRIBUTION



ARGUS RATING SYSTEM

Argus uses three ratings for stocks: BUY, HOLD and SELL. Stocks are rated relative to a benchmark, the S&P 500.

A BUY-rated stock is expected to outperform the S&P 500 on a risk-adjusted basis over a 12-month period. To make this determination, Argus Analysts set target prices, use beta as the measure of risk, and compare risk-adjusted stock returns to the S&P 500 forecasts set by the Argus Market Strategist.

A HOLD-rated stock is expected to perform in line with the S&P 500.

A SELL-rated stock is expected to underperform the S&P 500.

MASTER LIST CHANGES

	Stock	Rating		Date Change
		From	To	
Kinderg Morgan Inc	KMI	HOLD	BUY	7/19/24
DoorDash Inc	DASH		HOLD	7/23/24

RECENT BUY UPGRADES

	Stock Symbol	Raised to BUY On this date
Kinderg Morgan Inc	KMI	7/19/24

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