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MARKET REVIEW

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MARKET COMMENTARY

Second quarter earnings season in the U.S. is coming to an end with almost 90% of S&P 500 companies having reported. Of these companies, 78% beat EPS expectations and 47% beat on sales. Additionally, with EPS up 9% year-over-year and sales up 5%, broad company fundamentals appear sound.

Despite this, recent volatility highlights just how quickly investors' opinions can change. July's weak jobs numbers in the U.S. served as a reminder that economic growth does not necessarily happen in a straight line. Until recently it had seemingly been months since investors were openly worried about a hard landing. Now, odds are 50/50 about whether the Fed cuts by 50 bps or 25 bps in September. Fortunately, with the current Fed Funds Target rate over 5%, the FOMC has lots of room to cut rates if weakness persists.

This recent volatility also took some of the froth out of certain corners of the market. FOMO and momentum trades in the AI space no longer look like the sound strategies some may have perceived them to be just a few short weeks ago. Increasingly, investors are questioning when (or even if) large-cap tech companies will begin to realize returns on their substantial AI capex. While selloffs like this can be unpleasant in the short run, we believe it offers long-term investors an excellent opportunity to add high-quality companies at more reasonable prices.

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