The Weekly Market Update – 7/24/23: Fed Meeting, GDP Report, and Earnings Ahead

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,536.34	0.69%	1.93%	18.15%	19.84%	4,796.56	5.7%
Dow Jones Industrial Average	35,227.69	2.08%	2.38%	6.28%	14.47%	36,799.65	4.5%
NASDAQ Composite	14,032.81	-0.57%	1.78%	34.07%	27.24%	16,057.44	14.4%
Russell 2000	1,960.26	1.51%	3.79%	11.30%	14.77%	2,442.74	24.6%
MSCI EAFE (USD)	2,176.58	-0.57%	2.10%	11.97%	17.89%	2,398.71	10.2%
MSCI Emerging Markets (USD)	1,014.58	-1.35%	2.54%	6.09%	1.39%	1,444.93	42.4%
Bloomberg Commodity Index	106.20	1.53%	4.65%	-5.86%	-9.27%	237.95	124.1%
Barclays U.S. Aggregate Bond	89.86	0.01%	0.08%	1.10%	-2.99%	112.07	24.7%

Source: FactSet

We expect the Fed to raise its interest rate target by 25 bp (0.25%) on Wednesday, prior to Thursday's second quarter (2Q23) economic release on gross domestic product (GDP). The Federal Reserve Bank (Fed) will conclude its fifth 2023 Open Market Committee (FOMC) meeting this week on 7/26/23 and likely will hike its overnight bank lending fed funds interest rate target to a range of 5.25% to 5.50% (from 5.00% to 5.25% currently). A rate hike would follow a pause (no change to the interest rate target) at the prior FOMC meeting in June. While the Fed was likely encouraged by the June consumer price index, or CPI (consumer inflation reported by the Bureau of Labor Statistics, BLS), reading of 3.0% year-over-year (Y/Y) and 0.2% month-over-month (which is just 2.4% annualized), core CPI (excluding food and energy price changes) of 4.8% remained significantly above the Fed's 2.0% target, and could cause the Fed to conclude that "additional policy firming may be appropriate." In addition, the labor market has remained robust, including an average monthly increase in nonfarm payrolls (from the BLS) of 278 thousand (K) over the past six months. On 7/27/23, the Bureau of Economic Analysis (BEA) will report its first look at 2Q23 GDP (the value of goods and services produced during the quarter). The current FactSet consensus estimate for 2Q23 annualized GDP is 1.5%, and the estimate has moved considerably higher in recent months; as recently as December, the consensus estimate for 2Q23 GDP was -0.6%. We attribute an improved U.S. economic outlook to, most notably, strong and resilient consumer spending. U.S. consumer spending increased 4.2% in 1Q23, which was the highest rate of growth in seven quarters. The latest (7/19/23) Atlanta Federal Reserve Bank GDPNow estimate, which tracks monthly data as reported, shows positive but slowing consumer growth in 2Q23 of +1.4%, but also indicates improving contribution from business investment and housing. The FOMC will not have the latest GDP report at its two-day meeting this week, but trend data appears to support the expected rate hike. While the Fed is likely to leave open the possibility of more rate hikes to come, both equities and investors reflect expectations that this could be the peak level of the fed funds target.

We expect minimal market disruption from the special rebalance of the Nasdaq 100 index, effective as of 7/24/23. The Nasdaq 100 is a widely followed, growth- and technology-centric index compiled by Nasdaq.com and includes 100 of the largest (by market capitalization) non-financial companies listed on the NASDAQ stock exchange. The index includes all of the top 7, technology-centric growth stocks that have driven the S&P 500 index to strong and narrow gains in 2023, and those stocks comprise an even larger percentage of the Nasdaq 100. If all stocks comprising weights above 4.5% exceed 48% of the index in aggregate, the Nasdaq will bring those weights down to 40%. This threshold was reached in early July, and we estimate that up to seven companies were rebalanced lower. With the rebalance completed, new investors investing into funds that track the Nasdaq 100 will have modestly lower exposure to those largest growth companies. This will improve diversification in those funds and could extend the broadening of sector participation seen in recent weeks.

Investors will navigate a busy week of potential market-moving events that include the FOMC meeting, the 2Q23 GDP report, and a heavy calendar of S&P 500 earnings. One-third (164) of S&P 500 companies are scheduled to report quarterly financial results this week. Through early Monday, about 18% of index constituents had reported, with growth so far up +2%. However, a Y/Y earnings decline is expected once results are fully reported.

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