



The Weekly Market Update – 7/31/23: Business Investment Drives GDP Upside

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,582.23	1.01%	2.96%	19.34%	21.05%	4,796.56	4.7%
Dow Jones Industrial Average	35,459.29	0.66%	3.06%	6.98%	15.22%	36,799.65	3.8%
NASDAQ Composite	14,316.66	2.02%	3.83%	36.79%	29.81%	16,057.44	12.2%
Russell 2000	1,981.54	1.09%	4.91%	12.51%	16.02%	2,442.74	23.3%
MSCI EAFE (USD)	2,196.24	0.90%	3.03%	12.98%	18.95%	2,398.71	9.2%
MSCI Emerging Markets (USD)	1,043.20	2.82%	5.43%	9.08%	4.25%	1,444.93	38.5%
Bloomberg Commodity Index	107.23	0.97%	5.67%	-4.94%	-8.39%	237.95	121.9%
Barclays U.S. Aggregate Bond	89.45	-0.46%	-0.38%	0.64%	-3.43%	112.07	25.3%

Source: FactSet

A Surge in business investment drove U.S. 2023 second quarter (2Q23) real gross domestic product (GDP) above expectations, even as consumer spending growth slowed. According to the Bureau of Economic Analysis (BEA), real GDP (the value of goods and services produced in the period adjusted for inflation) increased 2.4% (annual rate) in 2Q23, handily beating both the 1.5% FactSet consensus estimate and the 2.0% GDP growth of the prior quarter (1Q23). While consumer spending (represented by personal consumption expenditures, PCE) remained resilient and contributed solidly to the GDP print (PCE comprised 71% of total annualized U.S. GDP in 2Q23), a more important factor (in our view) was a rebound in business investment (non-residential fixed investment in the BEA report). Business investment contributed 1.0% to the 2.4% GDP growth and increased 7.7% annualized from the first quarter, marking the strongest growth quarter in five quarters and much better than the anemic 0.6% growth in the first quarter (1Q23). Three business investment segments comprise the U.S. non-residential fixed investment data, and each showed annual growth in 2Q, including equipment (+10.8%), structures (+9.7%), and intellectual property (+3.9%). While the business contribution to GDP surged in the quarter, consumer spending increased 1.6% (annual rate) in 2Q23, below 4.2% growth posted in the prior quarter (1Q23). Although better than weak consumer data in the final quarter of 2022, consumer trends bear watching as 2Q23 spending growth on both goods and services moderated in 2Q23 compared to 1Q23. Since the post-pandemic economic recovery gained traction in early 2021, business investment remained positive, but growth rates varied. We can make a case for continued strength in the quarters ahead as well, as multiple catalysts are in place. This includes spending to support artificial intelligence, and political momentum to spend money from Congressional spending bills passed in 2021 and 2022 (Infrastructure Investment & Jobs Act, Inflation Reduction Act, and CHIPS and Science Act).

S&P 500 2Q23 earnings appear on track to exceed low expectations, but remain negative for the third consecutive quarter. Through 7/28/23, more than half (255) of S&P 500 companies had reported June quarter financial results. For those companies the weighted average (based upon equity market value) earnings were down -1.1% year-over-year (Y/Y), compared to a -7.4% estimate at the end of June. S&P 500 earnings were -4.6% and -2.0%, in 4Q22 and 1Q23, respectively. If second quarter results hold the trend so far, a return to Y/Y earnings growth in the third quarter becomes increasingly likely. However, the FactSet consensus (from Wall Street analysts) for 2Q23 remains -7.4% (as of 7/28/23), indicating that expectations remain low with many companies still to report. Looking at 2023 full-year earnings estimate, the number has moved modestly lower since the end of June, which tells us that despite exceeding estimates so far in the second quarter, S&P 500 companies in total have not raised their full-year outlooks.

It's another busy week for earnings reports as the month of July comes to a close, reflecting another month of equity market gains. With another 171 S&P 500 companies scheduled to report financial results this week, 85% of the S&P 500 reports will be in by Friday. The high volume of reports could lead to higher levels of volatility this week as investors react to the news. Monday is the last day of July, and by this time next week we will be well into August. Through 7/28/23, the widely followed, large-company S&P 500 index had gained 3.0%, and if this holds, would represent the fifth consecutive month of equity gains. On 7/28/23, the S&P 500 closed at a new 52-week high for the eighth time in July.

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