

Weekly Market Commentary

Seven Takeaways From a Dizzying Week For Markets

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Client Summary

Positive Factors

- **Strong Earnings Growth:** The S&P 500 has shown significant earnings power, driven largely by big tech companies, with earnings growth tracking to 9% and potentially reaching 10%.
- **AI Investment:** Continued investment in artificial intelligence (AI) is expected to drive future productivity gains and earnings power, with companies like Meta (META) and Microsoft (MSFT) showing strong growth and capital expenditures in AI.
- **Labor Market Stability:** The unemployment rate has remained stable between 4.0-4.2% since May 2024, and average hourly earnings have increased by 3.9% from a year ago, outpacing inflation.

Concerning Factors

- **Slowing U.S. Economy:** The U.S. economy is clearly slowing down, with the economy temporarily rebounding in the second quarter due to reduced imports.
- **Tariff Uncertainty:** Ongoing tariff threats and trade policy uncertainty continue to cloud the outlook for economic and corporate profit growth, inflation, and interest rates.
- **Potential for Increased Volatility:** As the economy slows and more tariffs are implemented, more bouts of volatility are likely, particularly during the seasonally weak period of August and September.

LPL Research's Perspective

- **September Rate Cut Likely:** LPL Research believes that the stage is set for a September rate cut by the Federal Reserve, given moderating economic conditions.
- **Tactical Neutral Stance:** The Strategic and Tactical Asset Allocation Committee maintains a tactical neutral stance on equities, advising against increasing portfolio risk beyond benchmark targets.
- **Long-term Opportunities:** Despite potential short-term challenges, the powerful AI trend, significant earnings power of big tech, forthcoming Fed rate cuts, and fiscal stimulus in 2026 are expected to support the market.

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Because of their narrow focus, sector investing will be subject to greater volatility than investing more broadly across many sectors and companies.

The Standard & Poor's 500 Index (S&P500) is a capitalization-weighted index of 500 stocks designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The PE ratio (price-to-earnings ratio) is a measure of the price paid for a share relative to the annual net income or profit earned by the firm per share. It is a financial ratio used for valuation: a higher PE ratio means that investors are paying more for each unit of net income, so the stock is more expensive compared to one with lower PE ratio.

Earnings per share (EPS) is the portion of a company's profit allocated to each outstanding share of common stock. EPS serves as an indicator of a company's profitability. Earnings per share is generally considered to be the single most important variable in determining a share's price. It is also a major component used to calculate the price-to-earnings valuation ratio.

All index data from FactSet.

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