# Economic & Market review – July 2022

# Earnings season & Central Banks

This month, earning season and Central Banks decisions were the main topics for the financial investors.

Over July, global equities advanced sharply, the S&P 500 posted its best gain since November 2020 by rising 9,2%, the Nasdaq 100 gained 12,6 % and EuroStoxx50 +7,6%. It's a big reversal compared to June's month. It has been probably facilitated by the fact that they were short covering, which over the illiquid summer months is driving market direction a lot more than would otherwise be the case. Institutional investors positioning had reached extreme levels after a sanguine 2nd quarter of 2022. Bank of America's Fund Manager survey showed that cash's holding had reached their highest level since 9/11 and most of managers were taking lower than normal risks. In addition, the survey showed that recession expectations were at the highest since the Covid slowdown in 2020 and global growth expectations have declined to an all-time low.

Is it a bear market rally? There are still some headwinds with disappointing economic data such as US PMI at 47,7 in July, headline CPI at 9,1% which was its highest level since 1981 and consumer sentiment has taken a hit and the second quarter US GDP contracted by 0,9% on an annualized basis, the second quarterly decline. In addition, Us Treasury have been incredibly volatile with 85 basis points move lower for the 10-Years US T-Bond. The US Treasury yield curve inverted which Is not good for the economy. It usually anticipates a recession.

Markets have been closely focused on earning reports for the 2nd quarter 2022 and we have seen mix earnings with a miss from Snap or Alphabet, and a profit warning from Walmart. On the other hand, Amazon or Microsoft published better than feared earnings. Last energy companies such as Exxon beat analyst's estimates. In terms of valuation, the equity market is not cheap, about 18x for the S&P500, and some strategists such as Goldman Sachs or Bernstein say stock rally can fizzle out as economic data continue to deteriorate, and earnings forecasts being slashed.

Finally, there was a global synchronized Central Bank tightening with a larger-than-expected rate hike of 50 basis points from the ECB and an increase of 75 basis point from the FED in line with expectations. Chair Jerome Powel left the door open for another hike in September but stressed it would be data dependent. Neither the FED nor the ECB is providing forward guidance.

At t this stage it's too early to be planning the bear market is over as recent events continue to weight on the financial market and the economy: inflation at a 40 year high at 9,1%, largest geopolitical conflict since World War 2 between Russia and Ukraine, rising rates into a slow-down / recession economic environment and lowest mortgage demand since 2001.