



# CAPITAL GROUP

## THE WEEK AHEAD

May 15th- 19th, 2023

### Weekly insights from Strategic Partner Jeff Kilburg -

**Earnings season wraps up with the ever-important Retail Sector revealing the condition of the U.S. consumer (Walmart, Target, Home Depot, and Alibaba) this week. Regional bank distress continues to sour investor sentiment yet, the regional bank chaos remains isolated and not a systemic risk to markets.**

Regional banks began the week higher as PacWest cut its dividend, but the Federal Reserve then warned of a potential bank credit crunch, and debt-ceiling talk drama escalated. After April inflation edged down, jobless claims rose, and PacWest reported losing more deposits...markets were a little dizzy. On the week, the Dow industrials fell 1.11%, to 33,300; the S&P 500 slipped 0.29%, to 4124; and the new bull market Nasdaq jumped 0.40%, to 12,284.

**Consumer Strength:** Investors prepare to gauge American consumer spending when April retail sales are reported Tuesday alongside earnings from home improvement giant, Home Depot. Target and TJX also report on Wednesday followed by Walmart on Thursday. It is important to remember that two-thirds of our economy is driven by consumer spending.

**Earnings:** S&P 500 companies are recording their best performance relative to analyst expectations since Q4 2021. For Q1 2023 (with 92% of S&P 500 companies reporting actual results), 78% of S&P 500 companies have reported a positive EPS surprise and 75% of S&P 500 companies have reported a positive revenue surprise. I would not call the market cheap but, with the average 5-year average at 18.6x... the current forward 12-month P/E ratio for the S&P 500 at 18.0 is not expensive.

Investors continue to grapple with a plethora of headwinds, yet the market remains at the higher end of its range in the S&P 500. I am not trying to play the contrarian role but, historically speaking, souring sentiment has fueled "shorts" to cover their positions, and the breakout seems to favor to the upside (testing 4450). Institutions have pulled a net \$334B from stocks over the past 12 months, while individual investors have yanked another \$28B. Billions have flowed into high-paying cash equivalents, driving total assets in money markets to a record \$5.3 trillion as of May 10, according to my people at the Investment Company Institute. Seems like a yellow flag could fly in the air at any given moment with so many investors off-sides. Stay nimble and always free to reach out

## Calendar

### Monday

- 8:30 a.m.: Empire State Index (May)

### Tuesday

- 8:30 a.m.: Retail sales
- 9:15 a.m.: Industrial production
- 10 a.m.: Business Inventories & NAHB Housing
- Market Index
- 12:15 p.m.: N.Y. Fed President John Williams
- speaks

### Wednesday

- 8:30 a.m.: Building permits & Housing starts

### Thursday

- 8:30 a.m.: Initial jobless claims | Philadelphia Fed Index
- 9:05 a.m.: Fed Governor Philip Jefferson speaks
- 10 a.m.: Existing home sales

### Friday

- 8:45 a.m.: N.Y. Fed President Williams speaks
- 11 a.m.: Fed Chair Jerome Powell in conversation with Ben Bernanke, former Chair of the Board of Governors of the Federal Reserve System, at the Thomas Laubach Research Conference, Washington, D.C.

**Inflation:** April meant another month of US inflation cooling, per last week's Bureau of Labor Statistics report. The Consumer Price Index (CPI) increased 4.9% from April 2022 to April 2023, according to the new report, below the 5.0% forecast and under the year-over-year percent increase of 5.0% in March. It's the 10th consecutive month that the headline CPI rate has slowed, and it's at its lowest rate since April 2021.

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