Ropes Wealth Channels The Sound and the Fury

"Some days in late August at home are like this, the air thin and eager like this, with something in it sad and nostalgic and familiar."

---William Faulkner, The Sound and the Fury

Close your eyes and transport yourself back to high school English class, stumbling through the pages of a William Faulkner novel, reading and rereading the words on the page, so brilliant and yet so complex. Faulkner's writing is a perfect metaphor for the markets right now: stream-of-consciousness, with unpredictable changes in voice and frequent time shifts.

Welcome to August, when the markets take their sad and nostalgic and familiar nosedive as investors try to discern what the end of the year will hold and grow uneasy in their calculations. With 342 companies in the S&P 500 having already reported earnings this quarter, nearly 80% have topped analyst expectations. And yet, investors are focused on the misses, especially those of the big dogs, the so-called "Magnificent Seven" (Apple, Microsoft, Google parent Alphabet, Amazon, Nvidia, Meta Platforms and Tesla). It is not unreasonable that investors are uneasy when there are misses by these particular stocks as they are so priced for perfection, but nonetheless it hurts. Especially when earnings overall are coming in better than expected, averaging over 13%, more than the 10% growth rate expected. However, future outlooks are the pain point, with the likes of Amazon, Apple, and Qualcomm providing disappointing guidance, though Meta stood apart from the rest on signs its AI strategy is paying off in the advertising arena.

And herein lies the rub. For as good as the earnings we are getting, investors are starting to calculate that we might be peaking out in both earnings and economic growth, and an uneasiness is setting in. Now we are in a world when bad news and warnings are actually bad, and no longer ironically welcome as the precipitating force of Federal Reserve interest rate cuts. Investors are surgically examining the economic data and the earnings outlooks published by management teams, trying to understand where we are going, not where we have been.

This week, when the Federal Open Market Committee (FOMC) left its target range unchanged at 5.25% to 5.5%, they pointed out that job gains have *"moderated"* and expressed that they see risks *"to both sides"* of their dual mandate of maximum employment and stable prices. This is a hint that they aren't simply focused on the inflation fight and need to act to prevent further softness in jobs. And just in the nick of time, as this morning's reported 114,000 gain in payrolls for the month of July was much less than the 175,000 economists expected. The unemployment rate ticked up to 4.3% in July, the highest since October 2021. Notably, average hourly earnings rose just 0.2% in July, and are trending at a 3.6% growth rate year-over-year, down from 3.8% in June and marking the smallest annual increase since May 2021.

Market reaction to weaker earnings outlooks and worse-than-expected economic data has been fierce, with stocks plunging by roughly -6% from recent highs and the 10-year Treasury bond yield now trading below 4%. Investors are now fully expecting that the Fed will cut rates in September and are increasingly worried they may now be behind the curve and the soft landing that we thought was assured might be at risk. This is likely an overreaction, but it is worth noting the Fed Chairman Jerome Powell was clear that no single piece of data will shape the Fed's decision. *"It'll be inflation data, employment data, the balance of risks,"* Powell added. *"The totality of all of that will help us make the decision."* At the moment, the totality is showing the economy is taking a turn for the worse. For example, the July Institute of Supply Management (ISM) Manufacturing PMI fell to 46.8, well below the 50 that signals the line between expansion and contraction. It was the fourth straight month and 20th of 21 below 50 and represented the sharpest contraction since last November. There is no question that as data points like these come in, and market volatility rises, pressure will build for the Fed to make larger and faster cuts to maintain equilibrium.

We remain steadfast in our advice to stay focused on your plan and less on daily market gyrations. Your team is working hard to position your holdings in the best order for you. To quote William Faulkner again, *"Don't bother to just be better than your contemporaries or predecessors. Try to be better than yourself."* Good advice for the dog days of summer.

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