Ropes Wealth Acknowledges That It's Been a Week

After cratering Monday in the worst session since 2022, the market has been making a comeback over the course of this week in a rapid shift that has left investors feeling more than a bit whipsawed and understandably uneasy.

The selloff began late last week following the release of poor earnings reports from the likes of tech giants Tesla and Alphabet (Google). It was compounded by the news that Warren Buffett has sold half of his Apple stake to add to his cash holdings. Thin summer trading, election uncertainty with former President Donald Trump and Vice President Kamala Harris now polling neck-in-neck, as well as rising geopolitical tensions between Iran and Israel also contributed to investor angst.

On that last point, investors may want to brace themselves as we head into the weekend, as an escalation of violence may sadly be imminent. The assassination of Hamas political chief Ismail Haniyeh in Tehran, along with the killing of leading Hezbollah figure Fuad Shukr in Beirut, has sent shockwaves throughout the Middle East, and the feeling is that Iran and Hezbollah are likely to respond with an attack on Israel that could start an all-out regional war. We are badly in need of a de-escalation of violence in this moment, not only to ease financial market stress, but for humanity itself.

There was also the unwinding of the so-called yen carry trade contributing to market volatility, thanks to the Bank of Japan (BoJ) raising interest rates last week and sounding hawkish, causing a repatriation of currency back to Japan and selling pressure on everything else. The yen carry trade—borrowing in yen at low rates and buying higher-yielding assets elsewhere across the globe—had lifted many U.S. technology stocks to new highs. With the yen stronger versus the dollar in the wake of the BoJ's announcement, risk assets cratered, as going long on tech and short on yen was no longer in vogue. Cooler heads have prevailed on both tech stocks and the yen over the course of the week, but investors should remain, as ever, alert to the undeniable interconnections of global financial markets that are a reality of our times. As we all well know, correlations tend to rise in times of uncertainty.

Somewhat better economic data helped to assuage investor concerns as the Institute of Supply Management (ISM) barometer of service activity showed growth in July, in sharp contrast to the manufacturing report that has fallen deep into contraction territory. There were also fewer jobless claims than expected, easing investors' worries following last Friday's weaker-than-expected jobs report. A strong earnings report from pharmaceutical giant Eli Lilly demonstrating high demand for diabetes treatment Mounjaro and obesity drug Zepbound caused the stock to surge and pull with it some of the chipmakers and tech companies badly beaten up earlier in the week.

In order to ensure this renewed rally is durable, it is clear investors will want to see economic data good enough to prove there is little risk of recession but not so good that it staves off interest rate cuts by the Federal Reserve. Earnings from both Walt Disney and Airbnb this week raised questions about the health of the consumer, with both citing slower demand. That follows recent earnings from some hotel giants saying the same. While travel is only one component of consumer demand, this cooling trend bears watching. Big retailers are up to report earnings next week and should be watched carefully for signs of how the early back-to-school shopping season is going as well as home renovation trends.

With so much of earnings season over, outlooks for the rest of 2024 and 2025 carry more weight. Analysts now see 6.1% growth in third-quarter earnings per share (EPS) and 16.1% for fourth-quarter EPS, with a 10.8% EPS rise this year and 14.8% in 2025, according to FactSet. However, if the economy is slowing, as some data would

indicate, it will be challenging for companies to put up those kinds of results to justify their still high valuations.

Which is why the Fed's next move on rates is so crucial given that they hold the key to a major tailwind for the economy and corporate earnings with their power to reduce rates. Bets are growing for the Fed to whack back their fed funds target rate by 50 basis points, bringing rates to a range of 4.75% to 5% in a bold move at their September meeting, and then pausing on further action until December following the election.

My fellow Boston College alum and legendary investor Peter Lynch, former manager of the Fidelity Magellan Fund, once famously said, *"Far more money has been lost by investors preparing for corrections, or trying to anticipate corrections, than has been lost in corrections themselves."* In other words, dear reader, it is often best to stay the course in your investment plan, as gut-wrenching as it can be on certain trading days and let time in the markets rather than timing the markets do its best work to smooth out the inevitable volatility.

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