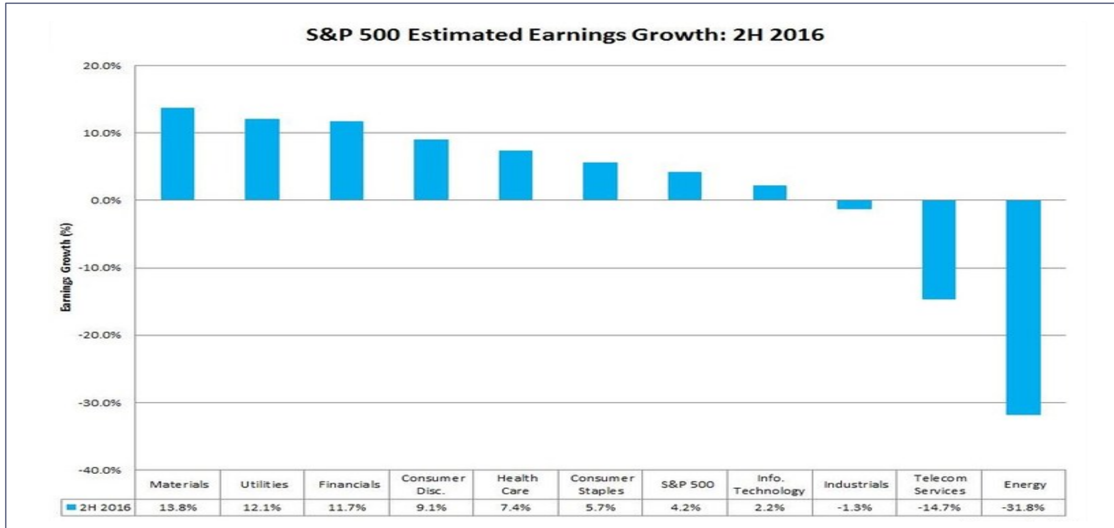
Market Recap

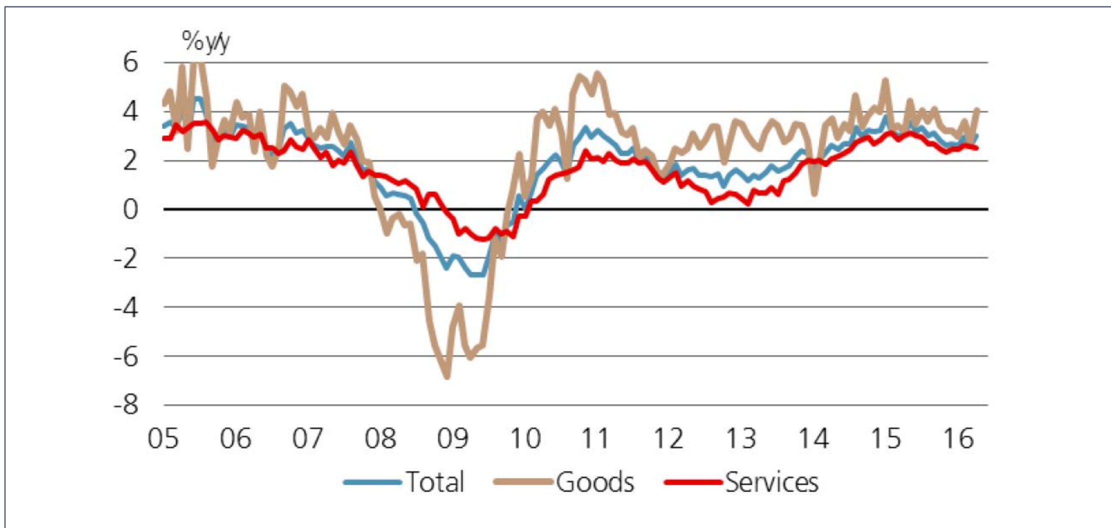
Earnings Expected to Pick Up In 2H 2016



Source: Fact Set

Current expectations put S&P 500 index earnings growth for the second quarter at -5.2%. This would make the fifth straight quarter during which the index has reported a year-over-year decline in earnings. However, analysts are calling for a recovery in the back half of the year, with third- and fourth-quarter earnings estimated at +1.1% and +7.4%, respectively. While a variety of lingering macro risks have loomed large over the market through the first half of 2016, the stronger trajectory of the dollar along with persistently lower oil prices (on a year- over-year basis) have been the driving forces behind flagging earnings numbers for the S&P 500. With the dollar and oil both showing a measure of stability – if not improvement – it is not surprising that analysts are predicting better results looking forward. Over the next 6 months, 7 of the 10 S&P 500 sectors are expected to report earnings growth. Leading the way are Materials, Utilities, Financials and Consumer Discretionary, while Energy and Telecom lag behind. However, the positive news for Energy is that the pace at which earnings are declining has slowed, in turn contributing to a broad improvement for the index on a relative basis.

Consumers May Be Saving More, But They Are Also Spending More



Source: UBS

The month of May witnessed a continued turnaround in consumer spending, notching a second straight month of gains. This rebound comes on the heels of a period of muted spending through the first quarter of 2016. The uptick points to a potential acceleration in economic growth during the second quarter and beyond, as consumer spending makes up about two-thirds of U.S. economic activity. Reasons for the recent shift in spending behavior include a lagged effect from lower oil and gas prices, alongside historically low borrowing rates that have helped homeowners save money through refinancing. The true implications of these figures will bear out over the next few weeks as second quarter earnings season gets under way. Already, there has been a marked decrease in the number of downward guidance revisions, suggesting that improving consumer expenditures may be trickling through to company profits.

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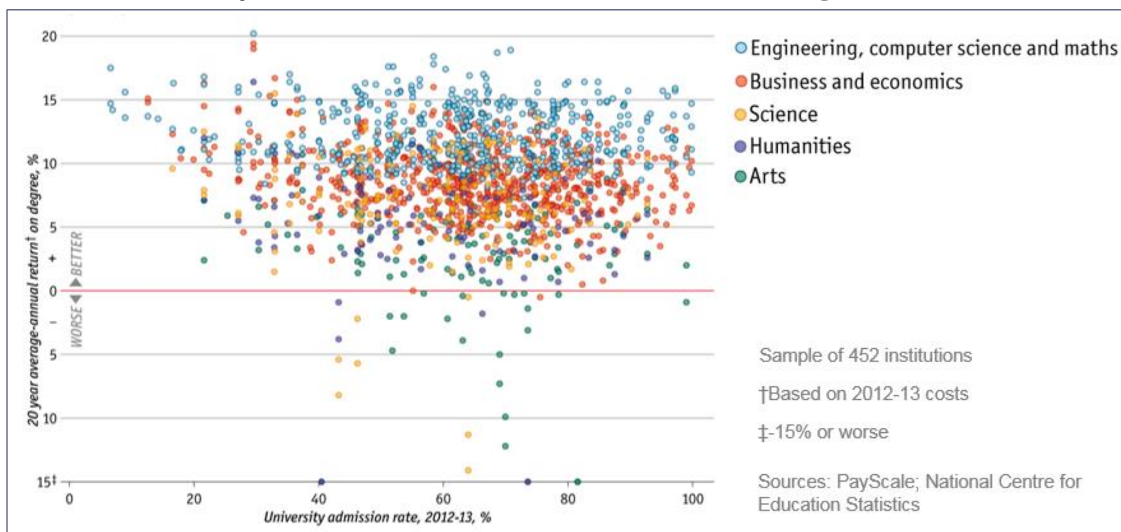
Yield Curve and Economic Indicators Telling Different Stories

Source: Evercore ISI

The yield curve is a simple way to measure economic expectations on a forward-looking basis. Essentially, the slope of the yield curve is determined by the difference between longer-term interest rates and shorter-term rates. A steep yield curve indicates that LT rates are higher than ST on a relative basis, a sign that market participants expect economic activity and conditions to pick up in the future. More often than not, the relative 'steepness' of the yield curve moves in tandem with ISM readings, a measure of economic activity. Today, however, while recent indicators seem to suggest that the economy is strengthening (extremely strong ISM and employment readings in June), the yield curve has flattened. This is driven, in part, by an increasing desire for safe haven assets such as treasury bonds in the face of global uncertainty (China, Brexit, e.g.). Even though domestic data is trending up, the market's behavior has not kept pace, leading to a breakdown in the relationship between ISM readings and the spread between 10-year and 2- year rates.

Subject or Status: What Maximizes College ROI?



Source: The Economist

Which is a stronger indicator of future earning potential: the college you attend, or the subject you study while there? The research firm PayScale found that career earnings depend far more on a student's field of study than on the prestige of the student's alma mater. Across a sample of 452 institutions, computer science, engineering, and math majors averaged the highest salaries, earning a 20-year annualized return of 12% on the cost of their college degrees. Business and economics degrees delivered a strong 8.7% average return, while the average ROI was weaker for humanities, arts, and science students. Although some degrees do afford a greater probability of financial success than others, the average college graduate aged 25-34 can still expect to earn 70% more than his or her non-college educated counterpart (up from 22% in 1972).

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