Week In Review

OLLI-GMU Investment Forum

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Today: Big Banks' blowout earnings

MAG 7 comeback

Inflation is moderating

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Disclaimer: I am not a certified financial analyst.

Any trading decisions you make are your responsibility

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Economic commentary

We have a strong economy and a “risk-off” stock market

- Fed minutes from June meeting: Hold rates steady at 3.5% - 3.75%
  - Rate hike this year is unlikely
  - AI capex is now driving inflation, along with fuel prices
- PCE inflation dropped to 3.5% from 4.2%
- WSJ survey of 72 economists predicts stubborn inflation
- 25% chance of recession in next 12 months
- Steady unemployment at 4.2%; slow hiring
- Oil price rises to $86/bbl due to Str of Hormuz closure
- Consumer confidence rose to 91.2; steadily rising with gas prices going down
- June home prices rose to a record median $440,600; 36 months straight; high mortgage rates holding the real estate market down

Market Commentary

- JPMorgan, Bank of America, Goldman Sachs, Citigroup and Wells Fargo all post strong profits, indicating a strong economy.
  - NIM just average; credit card balances up; delinquencies down
- MAG 7 making a comeback
- IBM issues profit warning; stock falls 25%
  - Customers shifting purchases from software to hardware
- TSMC profits rose 36% YoY; stock price declined
- Market trading is rotating away from Mag-7, but staying within the AI universe   (Stuart Kaiser, Citi Bank)
  - Mag-7 will spend $1T capex next year – ROI story remains weak
  - Market leadership is spreading out
- Bloomberg projecting Q2 profits will be 22% higher, YoY
  - In addition to 28% jump in Q1
- Oracle credit rating dropped by S&P to near-junk on AI spend
- CNN fear gauge: 43; mildly fearful
- VIX: 16.5; neutral
- Put/Call ratio 0.75; neutral

Now what?

- US economy is strong but….with significant inflation uncertainty
- Oil prices subject to the outcome of the war with Iran
- Fed interest rate increase is unlikely in 2026
- Stock market is expensive, but with room to run, driven by earnings, AI capex
- Protect yourself through diversification, stop loss orders and put options

GLTA

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