MOE'S MARKET WRAP MINUTE

WEEK OF APRIL 26, 2023

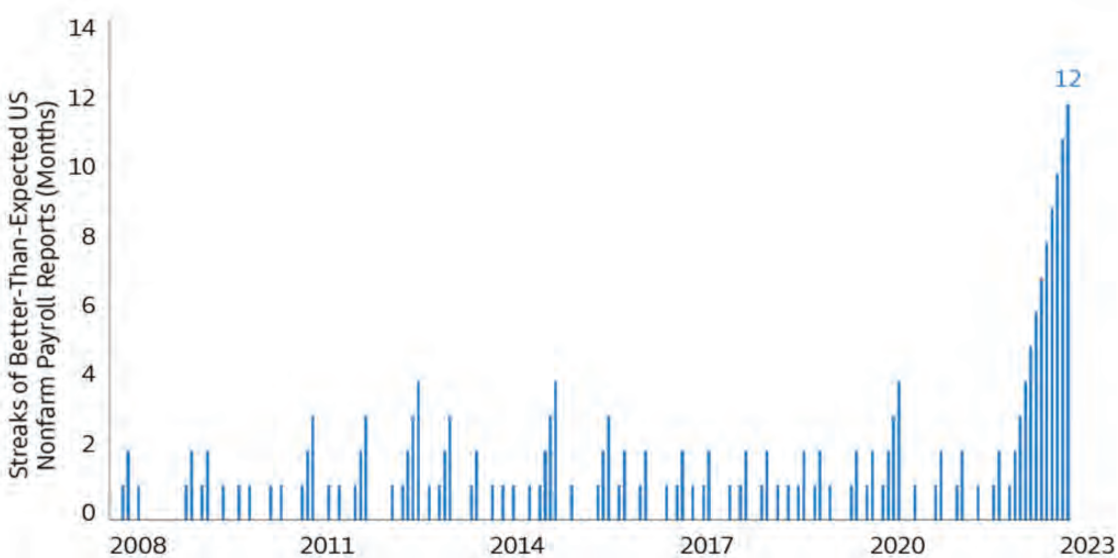
MOE'S MARKET MENTIONS

- For the moment, first-quarter reporting season appears to be positive. Earnings from S&P 500 companies that have reported have come in almost 5% above analysts' estimates as of Friday (4/21/23), according to Evercore. While those that have topped their numbers are getting rewarded, those that miss aren't being punished all that much. Companies that have announced earnings and sales that beat expectations have gained 2.3%, versus an average advance of 1% over the past five years. A double miss has resulted in a mere 1.8% drop, versus an average 2.9% decline (as of 4/21/23).
- That could be a sign that the worst for the economy is actually over. And that possibility—for the moment, at least—is showing up in analysts' forecasts. About 76% of companies in the MSCI USA Index have seen upwardly revised earnings estimates for the next year, according to Ned Davis Research. That's the highest level in 10 months and up from a recent low of just under 60%, and it could be a sign that estimates have bottomed and are ready to rebound (as of 4/21/23).
- "The increasingly positive revisions rate makes it more likely that, after close to two years of increasingly pessimistic earnings sentiment, investors will buy on expectations of better earnings ahead," writes Tim Hayes, chief global investment strategist at Ned Davis Research.
- The recessionary watch indicator that we continue to monitor is the high yield bond market, using HYG as a proxy. As long as HYG remains above its 50-MA the economic outlook is positive. A decisive move below 72.6 would indicate a recession is probably on the horizon.

CHART OF THE WEEK

For this week's chart we revisit Nonfarm Payroll data. Recent labor market strength has surprised to the upside for 12 consecutive months, revealing a resilient, though gradually softening jobs market. Labor market demand will need to continue normalizing relative to supply to slow wage growth and ultimately bring down core inflation. We believe this process is both underway and can be achieved while avoiding a potentially painful rise in unemployment, though with considerable challenge.

Key employment data days to watch in the coming months are May 5th, June 2nd, July 7th & August 4th. Now that we are a year into the Federal Reserve's tightening cycle, this is when we can start to see some weakness in the economy due to tighter financial conditions. If employment remains strong over the next couple of months then a recession is unlikely in the near future.



Source: Bloomberg, GS Global Investment Research, and GS Asset Management

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