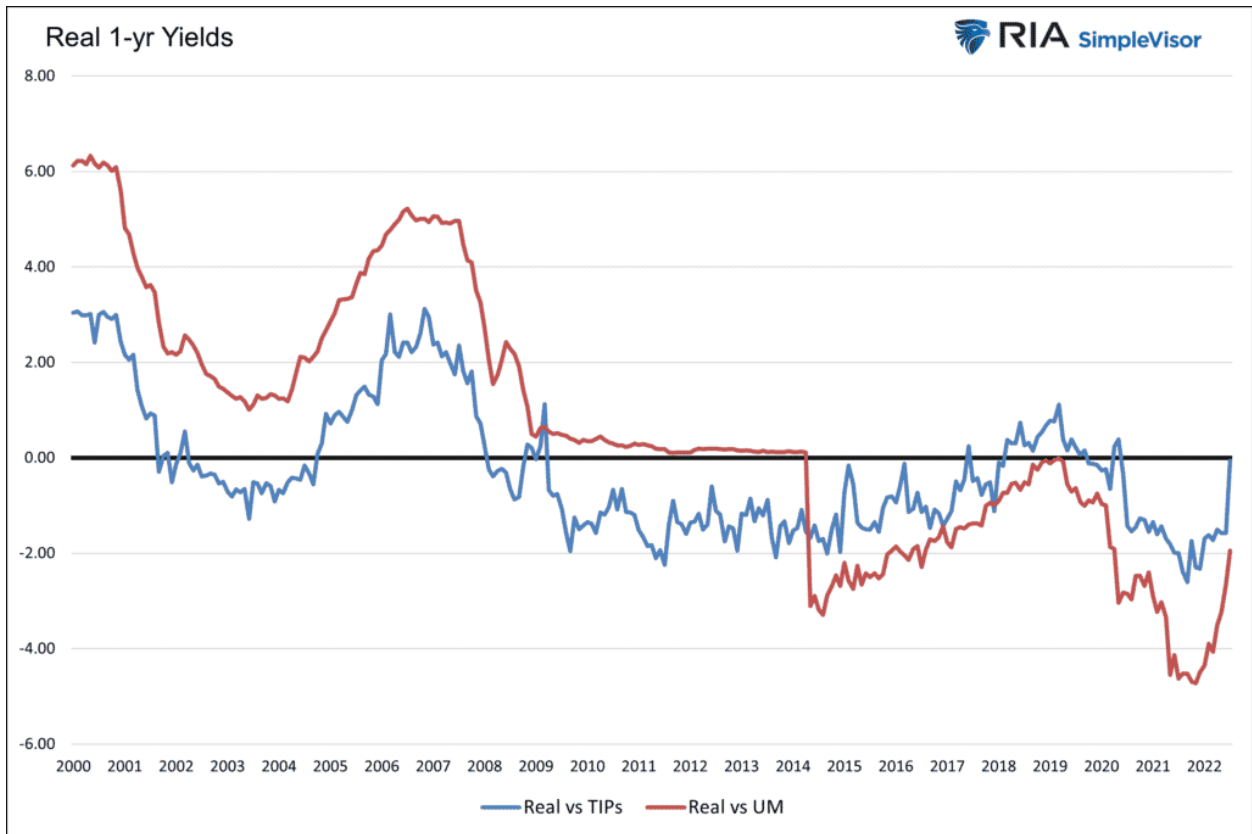


# Savers Rejoice Over 3% Yields- Should They?

Most stock and bond investors have been punished by the Fed's aggressive monetary stance designed to quell inflation. However, savers can finally earn some yield. The popular Fidelity money market fund (SPRXX) currently yields 1.28%, and it will increase further as the Fed raises rates. Buying a longer-term money-market instrument provides savers with an even greater yield. For example, the one-year U.S. Treasury bill yields 3.25%. While 3.25% or even 1.28% is certainly better than zero, are savers better off? The answer lies in what current and future inflation rates will be. Currently, the average one-year inflation rate is expected to be 5.20% per the University of Michigan Consumer Survey and 3.31%, as implied by TIPs. The real yield based on the TIPs implied rate is near 0%. Compare that below to prior real rates and ask again, are savers better off?



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## What To Watch Today

### Economy

- 7:00 a.m. ET: **MBA Mortgage Applications**, week ended July 15 (-1.7% prior)
- 10:00 a.m. ET: **Existing Home Sales**, June (5.36 million expected, 5.41 million prior)
- 10:00 a.m. ET: **Existing Home Sales**, month-over-month, June (-0.9% expected, -3.4% prior)

## ?Earnings

### Pre-market

- **Biogen** (BIIB) to report adjusted earnings of \$4.12 on revenue of \$2.48 billion
- **Baker Hughes** (BKR) to report adjusted earnings of 22 cents on revenue of \$5.35 billion
- **Comerica** (CMA) to report adjusted earnings of \$1.77 on revenue of \$807 million
- **Nasdaq** (NDAQ) to report adjusted earnings of \$1.91 on revenue of \$879.17 million
- **Abbott Laboratories** (ABT) to report adjusted earnings of \$1.18 on revenue of \$10.32 billion
- **Northern Trust** (NTRS) to report adjusted earnings of \$1.93 on revenue of \$1.76 billion

### ?Post-market

- **Tesla** (TSLA) to report adjusted earnings of \$1.83 on revenue of \$16.88 billion
- **United Airlines** (UAL) to report adjusted earnings of \$1.87 on revenue of \$12.01 billion
- **Knight-Swift Transportation** (KNX) to report adjusted earnings of \$1.35 on revenue of \$1.86 billion
- **Steel Dynamics** (STLD) to report adjusted earnings of \$6.19 on revenue of \$5.92 billion
- **Discover Financial** (DFS) to report adjusted earnings of \$3.80 on revenue of \$3.19 billion
- **Equifax** (EFX) to report adjusted earnings of \$2.03 on revenue of \$1.32 billion
- **Elevance Health** (ELV) to report adjusted earnings of \$7.77 on revenue of \$38.07 billion
- **Alcoa** (AA) to report adjusted earnings of \$2.40 on revenue of \$3.45 billion
- **FNB** (FNB) to report adjusted earnings of 31 cents on revenue of \$335.57 million

## Market Trading Update - Stock Surge Bursts Above Resistance

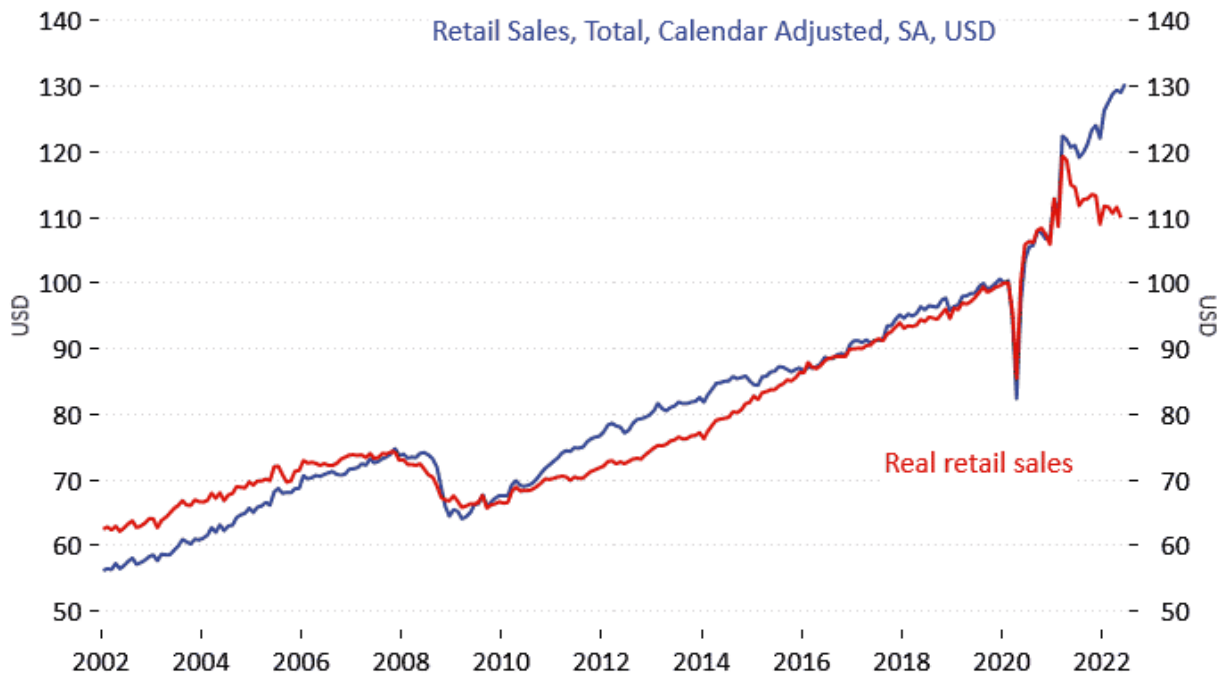
Stocks staged a massive rally yesterday as earnings, and forecasts, are not coming in as bleak as expected. Such set a very bullish tone with the market finally breaking above both the downtrend resistance line and the 50-dma. While markets are back to short-term overbought, the MACD signal is firmly intact, suggesting this rally could have some legs, and the next target would be the 4200 level.

We will look at starting to nibble at some positions we like and potentially add a trading position in the S&P 500 ETF if this rally holds above the 50-dma. For now, continue to monitor risk. We have seen these rallies before that have quickly failed, We will wait for confirmation before getting more aggressive.



## Boom or Recession

We receive questions on our thoughts on whether we are in or entering a recession. The question is much tougher to answer today than in prior periods. The graph below comparing nominal retail sales to inflation-adjusted retail sales shows why. Nominal retail sales (blue) could not be more bullish for the economy. It is difficult to make a recession call with only nominal retail sales. However, real retail sales (red) steadily decline from the post-pandemic peak. Given personal consumption is two-thirds of the economy, your view on this graph makes all the difference. Typically economists look at inflation-adjusted growth figures. In that realm, yes, a recession is likely. However, said recession could come despite higher than normal nominal economic growth rates.



## Stocks And/Or Bonds In the Danger Zone

The graph below shows that bond yields (orange) have trended lower for the last thirty-plus years. Each time yields rose to the blue resistance line, they were rebuffed lower. At the same time, stocks tended to do poorly shortly after bond yields hit resistance. Bond yields have recently risen above the trend line, and stocks have fallen on cue. However, bond yields formed a bearish inverse head and shoulders pattern as we circle. Such a pattern portends higher yields. Having broken above resistance and the bearish technical pattern, are bond yields signaling trouble for stock prices? Equally important, what happens to stocks if bond yields fall rapidly as economic growth falters and inflation normalizes?

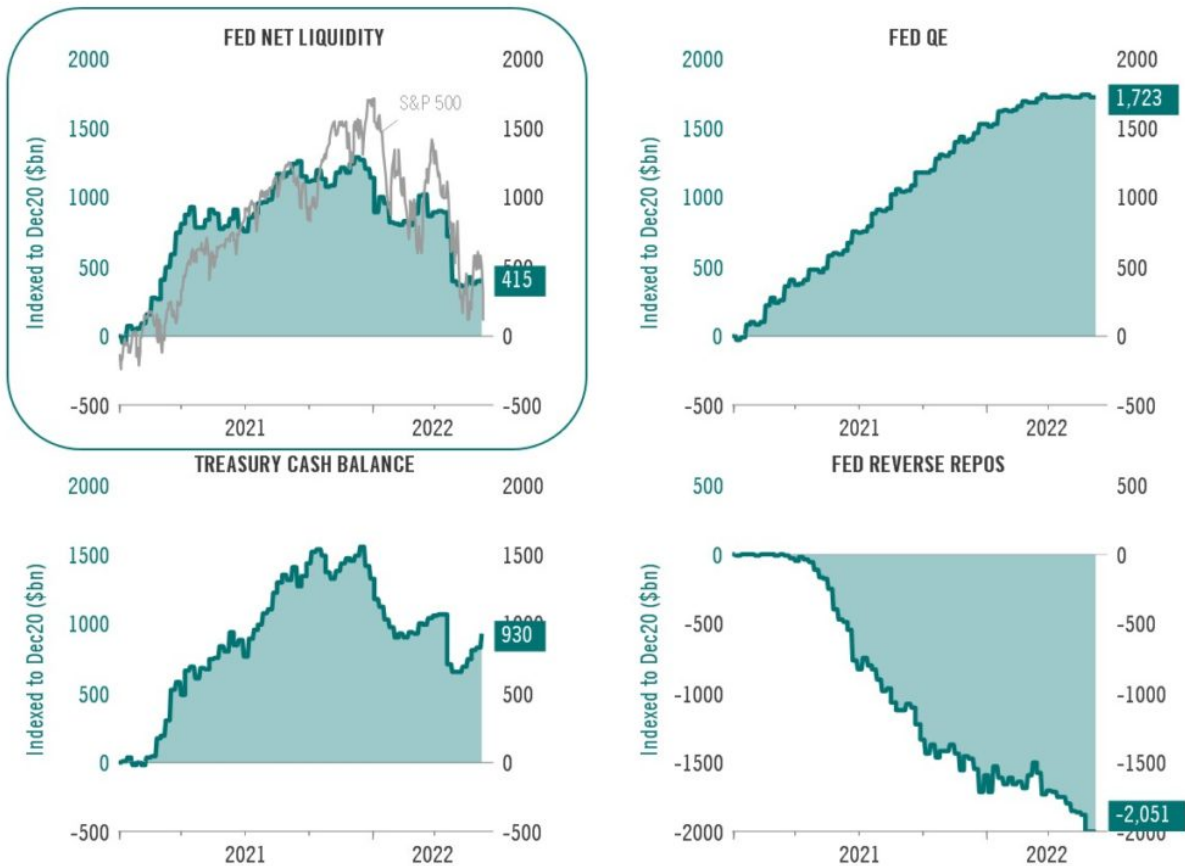


## Liquidity

The four graphs below paint an essential picture of liquidity in the markets. It is worth noting that total Fed liquidity tends to lead the S&P 500 by about a month. The graph in the top left shows the change in total net liquidity and the strong correlation it has with the S&P 500. Comprising net liquidity is the Fed's balance sheet (QE/QT), Fed reverse repos, and the U.S. Treasury cash

balance held at the Fed. QT will remove liquidity from markets. Rising Treasury cash balances and reverse repos also remove liquidity. However, both repos and Treasury balances will likely start declining, which should help liquidity. As we consider Fed liquidity, the big thing to follow is whether or not QT is offset by repos and Treasury balances.

### Fed Net Liquidity & Major Contributors (Indexed to Dec20, USD bn)



Source: Refinitiv Datastream, Pictet Asset Management

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