Yesterday, McDonalds issued a health warning in their earnings announcement. The warning is not about the physical health of its consumers but the customers' financial health. McDonalds global sales were down 1%, and U.S. sales fell by 0.7% in the second quarter. Moreover, as shown below, its same-store sales have fallen for the first time since 2020. Same-store sales only account for revenue from existing stores. Thus, revenue added due to the growth in the number of stores is eliminated. This is the preferred measure of sales for most retail outlets.

The McDonalds CEO opened the earnings call by saying low-end consumer weakness has deepened and broadened. We have heard this theme in many retail earnings announcements over the past six months. Savings have been depleted, and credit card debt has accelerated, leaving many consumers lacking funds to consume at prior rates. Typically, lower-end restaurants like McDonalds fare well during economic slowdowns or recessions due to their low prices. This time, however, its prices are not so low in the consumer's mind. The Big Mac, for instance, averages $5.29, an increase of over 20% since the pandemic. Throw in fries and a drink, and the meal is over $10 in many locations. Any wonder McDonalds extended its $5 value meal, and many of its competitors offer similar deals.

What To Watch Today

Earnings

Time	Symbol	Company Name	Market Cap ▾	Fiscal Quarter Ending	Consensus EPS* Forecast	# Of Ests	Last Year's Report Date	Last Year's EPS*
	MSFT	Microsoft Corporation	$3,109,676,744,209	Jun/2024	$2.90	15	7/25/2023	$2.69
	PG	Procter & Gamble Company (The)	$393,906,578,565	Jun/2024	$1.37	10	7/28/2023	$1.37
	MRK	Merck & Company, Inc.	$318,753,673,735	Jun/2024	$2.16	9	8/01/2023	($2.06)
	AMD	Advanced Micro Devices, Inc.	$223,568,534,636	Jun/2024	$0.47	14	8/01/2023	$0.40
	PFE	Pfizer, Inc.	$171,017,773,661	Jun/2024	$0.45	8	8/01/2023	$0.67
	SPGI	S&P Global Inc.	$151,233,957,000	Jun/2024	$3.63	10	7/27/2023	$3.12
	SYK	Stryker Corporation	$124,738,195,308	Jun/2024	$2.79	13	8/03/2023	$2.54
	RIO	Rio Tinto Plc	$104,671,877,710	Jun/2024		2	N/A	N/A
	ANET	Arista Networks, Inc.	$98,433,616,029	Jun/2024	$1.72	8	7/31/2023	$1.41
	AMT	American Tower Corporation (REIT)	$98,027,395,988	Jun/2024	$2.44	5	7/27/2023	$2.46
	BP	BP p.l.c.	$96,918,652,068	Jun/2024	$0.92	4	8/01/2023	$0.89
	MDLZ	Mondelez International, Inc.	$89,052,825,205	Jun/2024	$0.78	9	7/27/2023	$0.76
	SBUX	Starbucks Corporation	$83,049,564,000	Jun/2024	$0.93	12	8/01/2023	$1
	CP	Canadian Pacific Kansas City Limited	$75,421,115,000	Jun/2024	$0.74	10	7/27/2023	$0.62
	ITW	Illinois Tool Works Inc.	$72,758,872,000	Jun/2024	$2.46	8	8/01/2023	$2.41
	ECL	Ecolab Inc.	$69,581,931,376	Jun/2024	$1.66	11	8/01/2023	$1.24
	EPD	Enterprise Products Partners L.P.	$64,191,264,944	Jun/2024	$0.65	4	8/01/2023	$0.57
	PSX	Phillips 66	$60,417,418,758	Jun/2024	$3.10	7	8/02/2023	$3.87
	PYPL	PayPal Holdings, Inc.	$59,854,754,466	Jun/2024	$0.96	10	8/02/2023	$0.83
	PSA	Public Storage	$51,824,718,201	Jun/2024	$4.21	7	8/02/2023	$4.28
	AEP	American Electric Power Company, Inc.	$50,519,349,382	Jun/2024	$1.23	5	7/27/2023	$1.13
	EA	Electronic Arts Inc.	$37,772,502,354	Jun/2024	$0.03	9	8/01/2023	$0.75
	PEG	Public Service Enterprise Group Incorporated	$36,977,493,870	Jun/2024	$0.64	5	8/01/2023	$0.70
	GLW	Corning Incorporated	$36,671,868,893	Jun/2024	$0.46	7	7/25/2023	$0.45
	SYY	Sysco Corporation	$35,914,496,818	Jun/2024	$1.38	8	8/01/2023	$1.34
	IT	Gartner, Inc.	$35,864,499,911	Jun/2024	$3.03	5	8/01/2023	$2.85
	ACGL	Arch Capital Group Ltd.	$35,471,063,098	Jun/2024	$2.17	7	7/26/2023	$1.92
	EXR	Extra Space Storage Inc	$34,022,129,779	Jun/2024	$2	7	8/03/2023	$2.06
	HWM	Howmet Aerospace Inc.	$33,609,826,014	Jun/2024	$0.60	7	8/01/2023	$0.44
	XYL	Xylem Inc.	$33,246,793,175	Jun/2024	$1.06	7	8/02/2023	$0.98
	ADM	Archer-Daniels-Midland Company	$31,307,800,799	Jun/2024	$1.29	5	7/25/2023	$1.89
	FER	Ferrovial SE	$30,399,853,877	Jun/2024		2	N/A	N/A
	PINS	Pinterest, Inc.	$25,878,475,546	Jun/2024	$0.02	9	8/01/2023	($0.04)
	SW	Smurfit WestRock plc	$24,766,546,346	Jun/2024	$0.70	2	N/A	$0.89
	FE	FirstEnergy Corp.	$23,279,641,292	Jun/2024	$0.57	4	8/01/2023	$0.47
	FSLR	First Solar, Inc.	$23,141,284,589	Jun/2024	$2.67	12	7/27/2023	$1.85
	KB	KB Financial Group Inc	$23,018,973,921	Jun/2024	$2.70	1	7/25/2023	$2.81
	LYV	Live Nation Entertainment, Inc.	$21,343,633,620	Jun/2024	$0.99	8	7/27/2023	$1.02
	LDOS	Leidos Holdings, Inc.	$20,554,857,550	Jun/2024	$2.26	6	8/01/2023	$1.80
	WSO.B	Watsco, Inc.	$19,817,531,884	Jun/2024		2	N/A	$4.42
	WSO	Watsco, Inc.	$19,772,798,868	Jun/2024	$4.70	4	8/01/2023	$4.42
	HUBB	Hubbell Inc	$19,088,056,233	Jun/2024	$4.23	4	7/25/2023	$4.07
	CNP	CenterPoint Energy, Inc.	$18,475,233,249	Jun/2024	$0.33	4	7/27/2023	$0.28
	ESS	Essex Property Trust, Inc.	$18,153,185,160	Jun/2024	$3.85	12	7/27/2023	$3.77
	SWKS	Skyworks Solutions, Inc.	$18,079,123,113	Jun/2024	$0.96	7	8/07/2023	$1.50
	NMR	Nomura Holdings Inc ADR	$17,081,842,170	Jun/2024		2	N/A	$0.06
	ZBRA	Zebra Technologies Corporation	$16,680,968,527	Jun/2024	$2.48	4	8/01/2023	$3.24

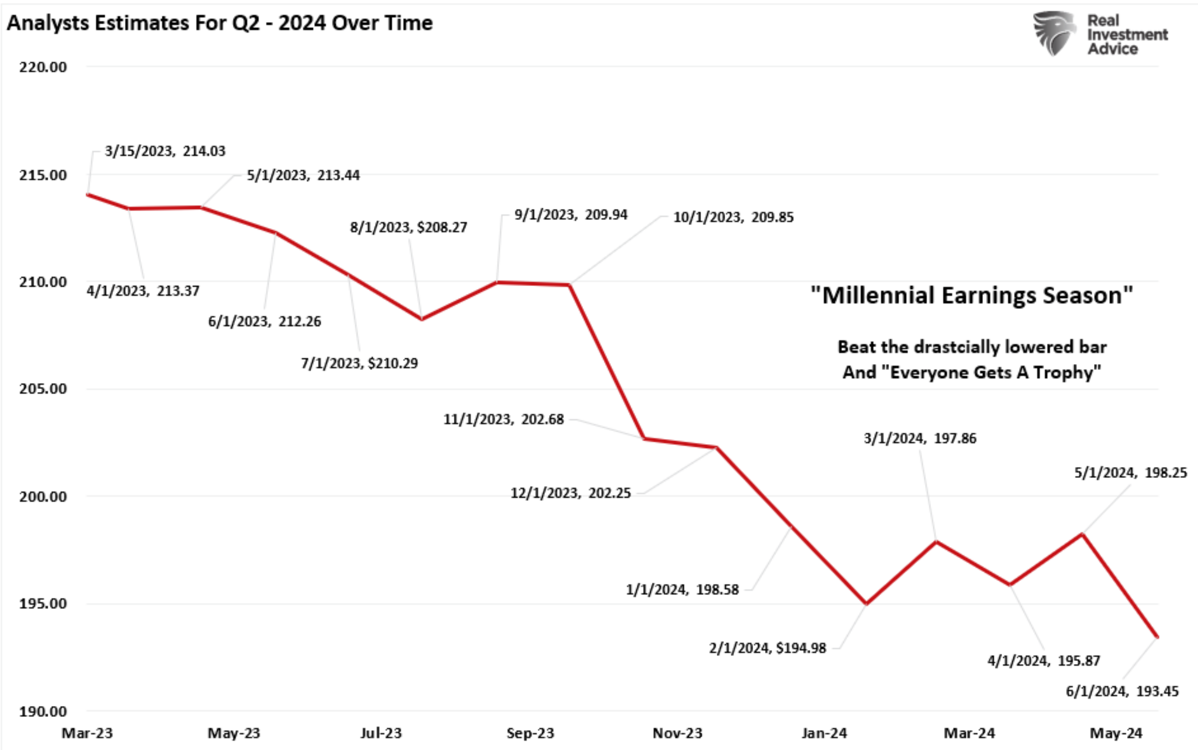
Economy

Time	Event	Impact	Actual	Dev	Consensus	Previous
TUESDAY, JULY 30						
12:55	USD Redbook Index (YoY) (Jul 26)		-	-	-	4.9%
13:00	USD Housing Price Index (MoM) (May)		-	-	0.2%	0.2%
13:00	USD S&P/Case-Shiller Home Price Indices (YoY) (May)		-	-	6.6%	7.2%
14:00	USD Consumer Confidence (Jul)		-	-	-	-
14:00	USD JOLTS Job Openings (Jun)		-	-	8.03M	8.14M

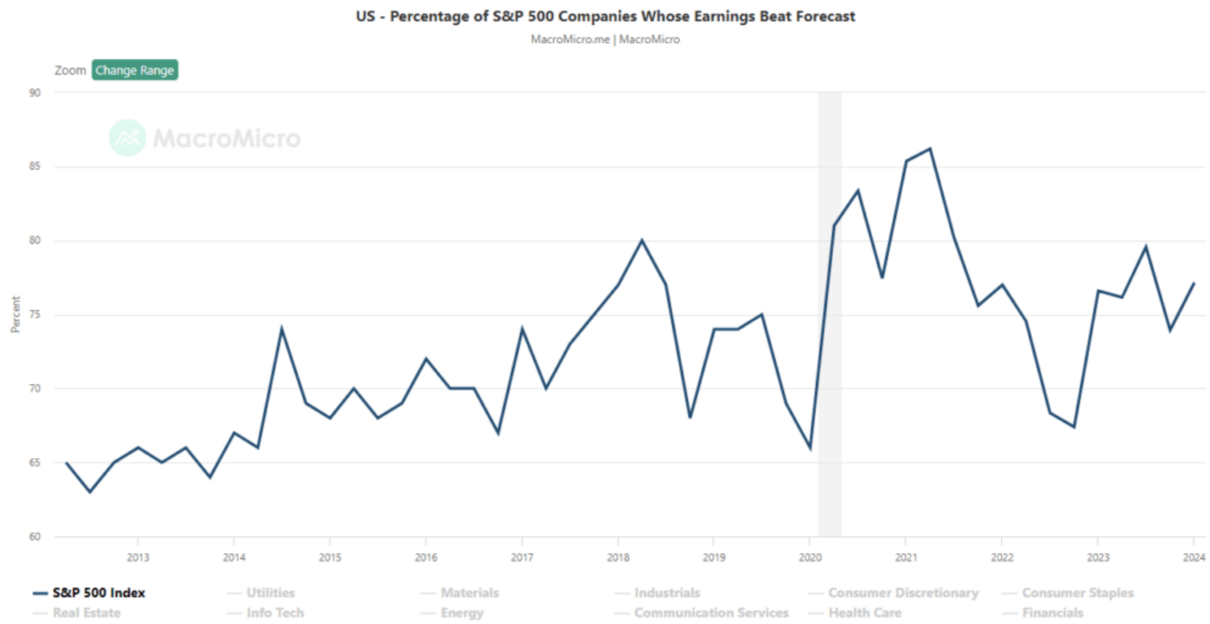
Market Trading Update

At the beginning of July, we discussed the ***["lowering of the earnings bar"]*** for the Q2 reporting period. To wit:

> *"It will be unsurprising that we will see a high percentage of companies•?beat?•Wall Street estimates. Of course, the high beat rate is always the case due to the sharp downward revisions in analysts? estimates as the reporting period begins. The chart below shows the changes for the Q2 earnings period from when analysts provided their first estimates in March 2023. Analysts have slashed estimates over the last 30 days, dropping estimates by roughly $5/share."*

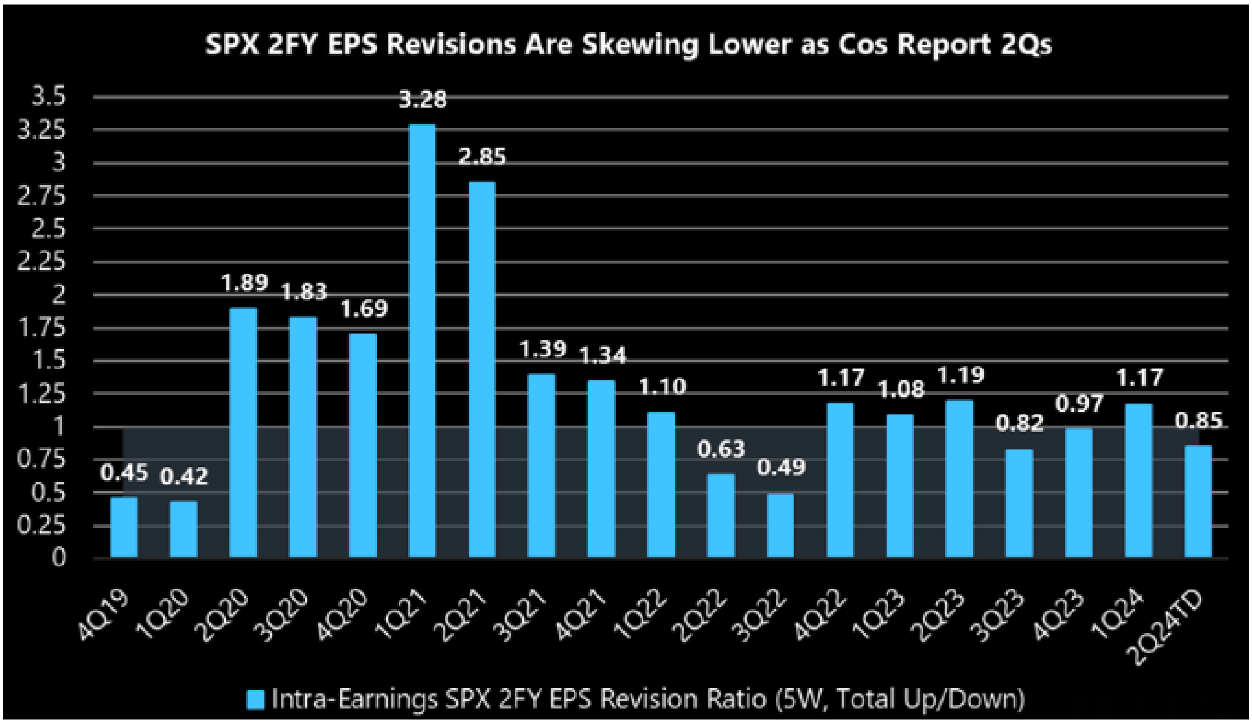


> *"That is why we call it•?Millennial Earnings Season.?•Wall Street continuously lowers estimates as the reporting period approaches so•?everyone gets a trophy.?•An easy way to see this is the number of companies beating estimates each quarter, regardless of economic and financial conditions. Since 2000, roughly 70% of companies regularly beat estimates by 5%, but since 2017, that average has risen to approximately 75%. Again, that•?beat rate?•would be substantially lower if investors held analysts to their original estimates."*

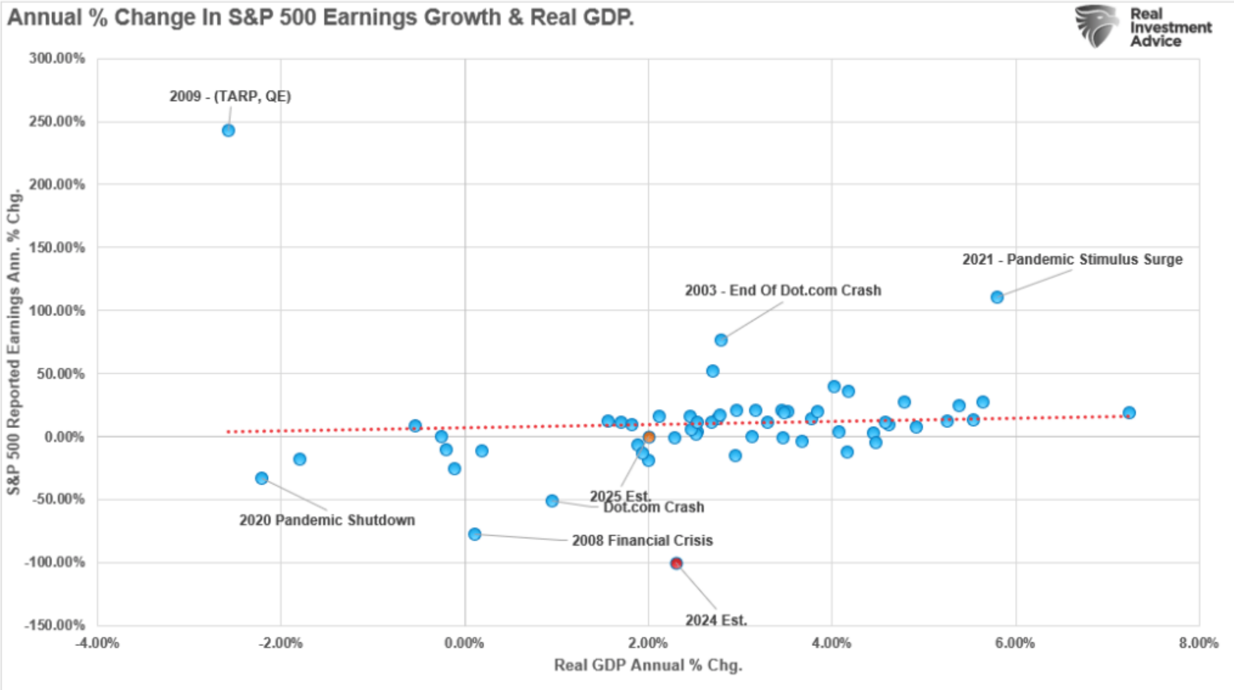


During just this past month, the expected earnings for not just Q2 but through 2025 have been cut further. As noted by Jefferies:

> *"....the negative revision skew (to earnings) is below the magic 1x level and bottom quartile. Although the magnitude of cuts is different vs. lockdowns & the tech layoffs, the mismatch between CY25 expectations earlier in the year vs. now looks widespread across most sectors as 7 of 11 are <1x."*

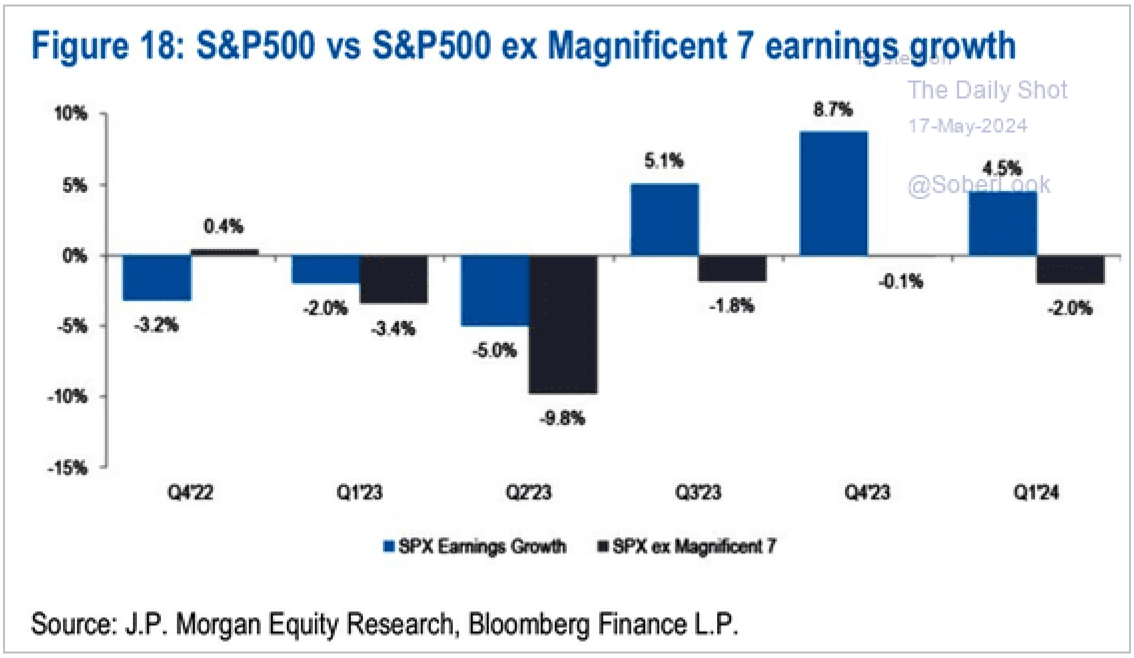


Given the current state of consumer data and the potential for slower economic growth in the months ahead, current Wall Street expectations seem overly optimistic. Furthermore, given the correlation between earnings and economic growth, a more cautious outlook would seem in order.



As noted previously:

> *?For investors, the most significant risk to portfolios is not inflation but most likely disinflation as the economy, and ultimately earnings, come under pressure in the months ahead. Such is crucial given that expectations for earnings growth in the overall index remain elevated, but that growth depends on just 7 stocks. In fact, since the beginning of this bull market cycle in Q4 of 2022, there has been ZERO earnings growth in the bottom 493 stocks of the S&P 500.?*



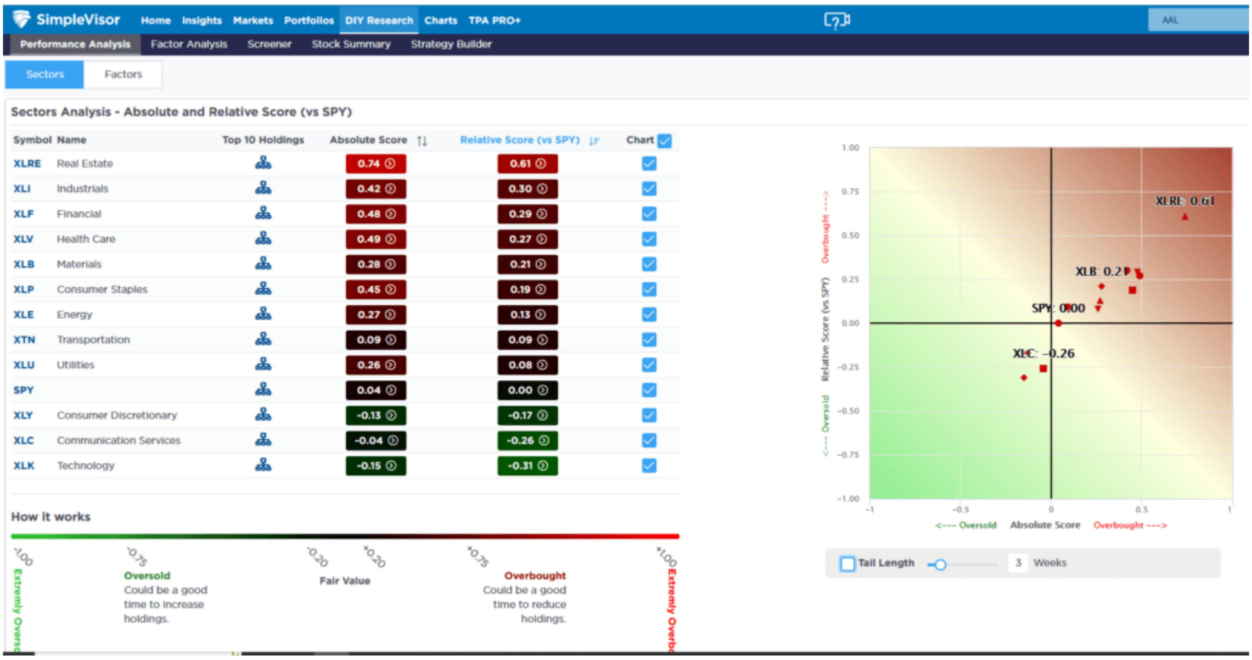
We must pay close attention to consumer data. It will likely provide the warnings necessary to reduce equity risk in portfolios.

As the economy slows, the subsequent decline in earnings is unsurprising. With valuations high, a deeper correction to revert company prices to slower underlying earnings growth is becoming a higher probability event. As such, we suggest remaining cautious for now and managing exposure to companies with the highest probability of negative earning revisions in the near term.

Is The Rotation Trade Over?

Over the last few weeks, the gross market imbalances of 2024 have somewhat normalized. The question now facing investors is whether the rotation trade away from the largest stocks continues. The recent severe rotations and the minor S&P 500 correction from record highs leave the market in a healthier condition than it was a few weeks ago. SimpleVisor can help us appreciate the changes in the market by sector and help guide us on what's next.

The first graph below highlights that the sectors' relative scores (versus the S&P 500) show that 2024 laggards like Real Estate and Financials are the most overbought. Conversely, Communications and Technology are the most oversold. Neither the overbought or oversold sectors are in extreme territory. Thus, the rotation can undoubtedly continue. The second table compares the relative performance of each sector to the S&P 500 over the last 25 days and the 60 days before that. This, too, shows the market balance has improved markedly over the previous five weeks.



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Lookback Days: 25,60,90,20,60,60,60 Update

		25 days	60 days
Symbol	Name	2024-06-20 to 2024-07-26	2024-03-25 to 2024-06-20
XLK	Technology	-5.01%	4.49%
XLC	Communication Services	-0.35%	-1.74%
XLY	Consumer Discretionary	1.31%	-5.81%
XLP	Consumer Staples	1.60%	-2.35%
XLB	Materials	2.36%	-7.18%
XLU	Utilities	2.43%	3.55%
XLE	Energy	2.59%	-8.44%
XLV	Health Care	2.90%	-4.44%
XLI	Industrials	2.96%	-6.18%
XLF	Financial	5.10%	-4.68%
XTN	Transportation	5.18%	-12.51%
XLRE	Real Estate	6.59%	-5.47%

WSJ's Nick Timiraos Signals September Rate Cut

The Fed's media mouthpiece, Nick Timiraos of the Wall Street Journal, all but affirmed the Fed would not change rates tomorrow but will likely cut in mid-September. Per his latest, A Fed Rate Cut Is Finally Within View.

> *At each of their four meetings this year, interest-rate cuts have been a question for later. This time, though, inflation and labor-market developments should allow officials to signal a cut is very possible at their next meeting, in September.*

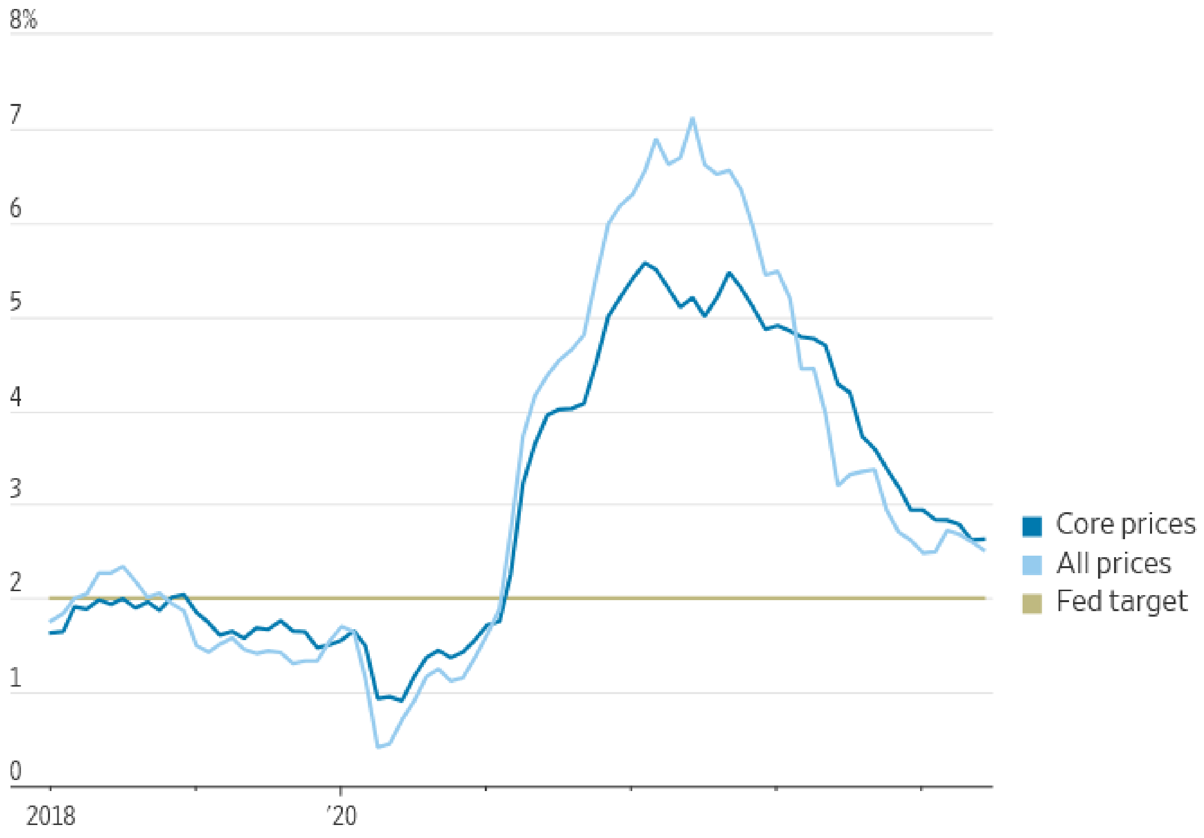
Per his article, the Fed's case rests on three factors as follows:

The Fed?s newfound readiness to cut rates reflects three factors: better news on inflation, signs that labor markets are cooling and a changing calculus of the dueling risks of allowing inflation to remain too high and of causing unnecessary economic weakness.

Regarding his three points, the graph below shows that PCE prices are closing in on the Fed's 2% target. Per Fed estimates, it should reach the target in late 2025. In regards to the labor market, they are comfortable with current levels of hiring and unemployment but are mindful of the weakening trends. Moreover, they want to arrest any further weakness that may develop. The third point is risk management, or balancing inflation and labor market goals properly. They appear fearful of cutting too late, just as they waited too long to raise rates in 2022.

> *The Fed was late to raise interest rates two years ago in part because it had incorrectly judged inflation would subside rapidly. The Fed was able to correct that mistake, but to do so, had to rapidly raise rates from near zero in 2022 to around 5.3% in July 2023, the highest in more than two decades. One lesson: ?When you?re too confident that your view is correct, you?re prone to mistakes,? said San Francisco Fed President Mary Daly.*

Inflation as measured by the personal-consumption-expenditures price index

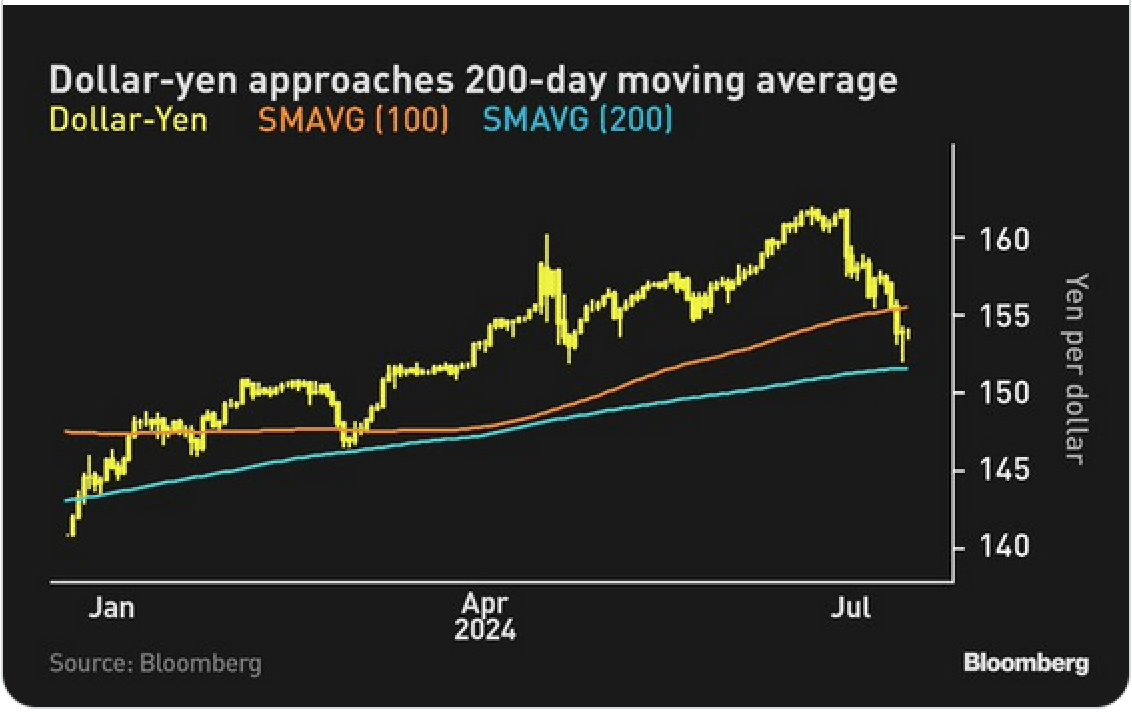


Note: Core prices exclude food and energy items; figures are seasonally adjusted
Source: Commerce Department

Tweet of the Day

Ⓒredit From Ⓜacro to Ⓜicro 🇺🇦 @Credit_Junk · Jul 26

Yen appreciated a lot this weeks amid of policy divergence between BOJ (to hike) vs the Fed (to cut?).
But what if BOJ disappoint? Is really a 10bp hike to change the future of carry trade between jgb and treasury?



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