

Economic highlights from the week ending on July 10, 2020

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The economic calendar was light this week and many companies have entered a quiet period ahead of second quarter earnings season which will unofficially kick off next week. Second quarter earnings results are expected to be ugly, with aggregate earnings among S&P 500 companies expected to decline roughly 40% year-over-year based on consensus estimates. The energy, consumer discretionary, and industrial sectors are likely to experience the largest year-over-year earnings declines in aggregate. Many companies scrapped their full year earnings guidance earlier this year due to uncertainty related to the pandemic. We are not expecting many companies to initiate new detailed earnings guidance, given that much of that uncertainty remains. Nevertheless, investors will be looking for evidence of a pick-up in demand and focused on management teams' strategic plans for the balance of the year. While weak second quarter earnings are already baked in to expectations, market participants are expecting a meaningful pick-up in economic activity and corporate earnings in the second half of this year.



The large global banks will be among the first to report second quarter earnings results. Although bank earnings remain under pressure due to the low interest rate environment and increase in loan loss provisions as a result of the current economic backdrop, we believe the large banks entered this crisis in a position of strength. In late June, the Federal Reserve released the results of their annual bank stress tests. In addition to their normal stress test which assumes a steep decline in economic activity followed by a V-shaped recovery, the Fed conducted additional tests this year based on a set of even more stressful hypothetical scenarios which could result from the pandemic (i.e. a more prolonged economic recovery or a double-dip recession). According to the Fed's assessment, most banks would remain well capitalized even under the most stressful set of hypothetical scenarios. Importantly, none of the Fed's stress scenarios incorporated the potential favorable effects of fiscal stimulus or expanded unemployment benefits. Notably, the amount of fiscal relief that Congress has already passed this year under the Coronavirus Aid, Relief, and Economic Security (CARES) Act has been more than twice the size of the economic stimulus package that Congress passed in 2009 during the financial crisis, and we believe another phase of fiscal relief is likely to be announced by the end of this month. Furthermore, as a result of increased regulatory oversight and a substantial build-up of capital since the 2008/2009 financial crisis, the large banks entered this pandemic crisis with much stronger balance sheets and levels of liquidity. Citigroup, JP Morgan, and Wells Fargo will be the first large banks to report second quarter results on Tuesday.



Next Week

CPI, Empire State Manufacturing, Industrial Production, Beige Book, Philly Fed, Retail Sales, Housing Market Index, Housing Starts, Consumer Sentiment

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