

Quarter End

The equity market declined on Friday afternoon for the second consecutive week following a report that the U.S. was considering banning U.S. pensions from investing in Chinese stocks and potentially delisting Chinese stocks from U.S. exchanges. Friday’s lower finish left the S&P 500 Index down 1.0% for the week. The use of international fund flows is a new turn in the trade standoff. Trade talks between the U.S. and China are still scheduled for October.

The third quarter ends this week and, barring significant changes on the last trading day, the S&P 500 Index, Dow Jones Industrials, and NASDAQ should all post modest gains for the quarter. The Russell 2000 (small cap) and International stocks are on track to post modest declines. Stocks are still likely to trade on economic and geopolitical headlines for the next week or two with the September employment report and other economic data on the calendar, as well as any updates on U.S.—China trade.

With the quarter ending, we will soon see third quarter company earnings reports move to the forefront. Current consensus expectation is for a year-over-year decline in earnings for the S&P 500 Index. Consensus earnings are expected to decline 2.2% year-over-year on a 3.7% increase in revenue. We breakdown the upcoming earnings season below in our Dissecting Headlines section.

Financial Market Update

| | <u>Weekly Return</u> | <u>YTD Return</u> | | <u>Weekly Return</u> | <u>YTD Return</u> |
|--------------------------------|----------------------|-------------------|-----------------------------------|----------------------|-------------------|
| S&P 500 Index | -1.0% | 18.1% | International Stocks (MSCI ex-US) | -1.2% | 9.3% |
| Dow Jones Industrial Average | -0.4% | 15.0% | Aggregate Bond Index | 0.2% | 6.2% |
| NASDAQ 100 | -1.8% | 21.4% | U.S. Dollar Index | 0.6% | 3.1% |
| Russell 2000 (Small Cap Index) | -2.5% | 12.7% | WTI Crude Oil | -3.8% | 23.1% |

Dissecting Headlines: Earnings Season

The market consensus expectation for corporate earnings (using the S&P 500 Index as a proxy) for the third quarter is a year-over-year decline of 2.2%. Expectations for both the first quarter and second quarter were for year-over-year declines as well, but most companies reported upside earnings relative to consensus expectations and the S&P 500 Index posted year-over-year increases in both quarters.

Revenue for the third quarter is expected to increase 3.7%. There are a lot of moving parts between revenue and earnings per share that can impact these expectations. Individual company actions can impact volumes, prices, profit margins, tax rates, share repurchases, and other factors that in turn impact earnings per share growth. Expectations also differ by sector. The energy, materials, and information technology sectors are expected to show the largest declines, while the financial, real estate, and health care sectors are expected to show earnings growth.

If earnings do show a decline for the quarter, you may begin to hear talk of an “earnings recession”. An earnings recession is when there is a two quarter consecutive decline. As of now, the consensus expectation for the fourth quarter is for 4.1% growth, but that may change during the third quarter reports as companies update their forward guidance and analysts update their future expectations.

The majority of earnings announcements will be between mid-October and early November. We will continue to update expectations weekly in our Market Commentary.

The NovaPoint Capital Team



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Joe has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a portfolio manager at Spectrum Advisory Services and GMT Capital in Atlanta, and Epoch Investment Partners in New York. He has also worked as an equity research analyst at Merrill Lynch and ABN Amro. Before beginning his investment career, Joe was an Infantry officer in the U.S. Army. Joe holds a BS from the U.S. Military Academy at West Point and an MBA from the University of Chicago. He is both a Chartered Financial Analyst (CFA) and a Chartered Market Technician (CMT).



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Alan has over 20 years of experience in the investment management industry. Prior to founding NovaPoint, he was a fixed income manager at both Spectrum Advisory Services and a private family office. Alan was also with the Bank Group division of Countrywide Capital Markets where he developed balance sheet strategies for depository institutions. He holds a BS in Banking and an MBA in Finance from Nova Southeastern University. Alan is Certified Plan Fiduciary Adviser (CPFA) and an endurance athlete and three-time IRONMAN finisher.



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Jeff has 9 years of industry experience. Prior to joining NovaPoint, Jeff was a Vice President in the Private Banking and Investment Group at Merrill Lynch. Jeff also worked at Booz Allen Hamilton and the Department of Defense. Prior to his private sector career, Jeff was a Field Artillery officer in the U.S. Army. He holds a BA from the University of Texas and an MBA from the University of Maryland. Jeff is Chartered Financial Analyst (CFA).



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Frederick has over 25 years of experience in the investment management industry. Prior to joining NovaPoint, Frederick was a Partner and Investment Advisor at Brightworth where he advised high net worth investors. Frederick began his investment career in 1991 and has also worked at Balentine & Co, Wright Investment Management, and Smith Howard Wealth Management. Prior to beginning his investment career, Frederick served as an Engineer officer in the U.S. Army. He holds a BS from the U.S. Military Academy at West Point and an MBA from Emory University. Frederick is a Chartered Financial Analyst (CFA).

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