

## Earnings Horizon

The equity markets started the new quarter with a weekly increase. The S&P 500 Index was +2.0% for the week, the Dow was +0.8%, and the NASDAQ was +4.7%. The 10-year U.S. Treasury note yield increased to 3.101% at Friday’s close versus 2.904% the previous week.

The labor market has been resilient. The June employment report showed growth of 372,000 jobs and the unemployment rate held steady at 3.6%. A still healthy job market should allow the Federal Reserve to remain aggressive in its monetary policy tightening to fight inflation. The June reports for the Consumer Price Index (CPI) and Producer Price Index (PPI) are scheduled for this week and should provide a current view on inflation.

Second quarter earnings reporting begins with several of the big banks this week. The current consensus for second quarter earnings growth is 5.7% on 10.6% revenue growth. For calendar-year 2022, the current forecast is for 9.4% earnings growth on 11.4% revenue growth. In addition to the impact of inflation on demand and input costs, headwinds from foreign currency translation may impact some companies with high foreign revenue.

In our *Dissecting Headlines* section, we look at the impact of a stronger U.S. Dollar relative to other major currencies.

## Financial Market Update

	<u>Weekly Return</u>	<u>YTD Return</u>		<u>Weekly Return</u>	<u>YTD Return</u>
S&P 500 Index	2.0%	-17.5%	Aggregate Bond Index	-0.8%	-9.9%
Dow Jones Industrial Average	0.8%	-12.8%	U.S. Dollar Index	1.8%	11.5%
NASDAQ 100	4.7%	-25.4%	WTI Crude Oil	-3.4%	39.3%
Russell 2000 (Small Cap Index)	2.4%	-20.7%	Gold	-3.8%	-4.7%
International Stocks (MSCI ex-US)	0.9%	-18.2%	Real Estate (US REIT Index)	-0.9%	-20.8%

Sources: S&P Global, Thomson Reuters

## Dissecting Headlines: Strong Dollar

The United States has likely been the best house in a bad global neighborhood this year. The U.S. Dollar Index, a measure of the value of the Dollar against a basket of currencies used by U.S. trade partners, is 11% higher year-to-date. The Euro, which represents 57% of the index, has fallen to near parity with the Dollar. The Japanese Yen, which is the second largest currency in the index at 13%, has fallen to a two-decade low. Other currencies in the index include the British Pound, Canadian Dollar, Swedish Krona, and Swiss Franc. Economies that rely on importing energy and exporting durable goods, like Germany and Japan, have suffered from higher energy costs and need a weaker Euro and Yen to support their exports.

Economic impact of a stronger Dollar include the relative cost of international travel. Americans would find traveling abroad cheaper, so despite higher airfare, some Americans may find a trip abroad appealing. The flipside is that travel in the U.S. is more expensive in foreign currency terms for visitors to the U.S. A stronger Dollar would also make imported goods less expensive, so despite rising material and shipping costs, a German or Japanese car, if available, would be relatively cheaper. The opposite happens for U.S. exports, which would now be more expensive to consumers in other countries.

For the upcoming earnings reporting season, foreign companies with business exposure in the U.S. would have favorable translation in currency back to their local currency earnings. The opposite is likely to happen for U.S. companies. Multinational, U.S. based companies should see a currency translation headwind from foreign operations when we see their reports for the quarter.

## The NovaPoint 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 an endurance athlete and three-time IRONMAN finisher.



**Frederick Wright, CFA / Managing Director & Portfolio Manager / [fwright@novapointcapital.com](mailto:fwright@novapointcapital.com)**

Frederick has over 30 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 at Balentine & Co where he rose to Partner. He also co-founded and served as Chief Investment Officer at Wright Investment Management and at 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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Tim has over 15 years of experience in the investment management industry. Prior to joining NovaPoint, Tim was the managing partner of Bull's Eye Wealth Management. Tim began his investment career at Raymond James & Associates and was a co-founder of Black Diamond Investment Partners. Following Black Diamond's merger with Waterloo Capital Management, Tim left to found Bull's Eye. He holds a BS from the University of South Carolina and an MBA from the University of Rochester. Tim is a Certified Financial Planner (CFP).



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Allan has over 7 years of investment industry experience. Prior to joining NovaPoint, he worked at an independent RIA firm. Allan began his investment advisory career with Edward Jones. He earned his BA from the University of West Georgia.

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