

What happened last week:

- **Equity Market Reversion:** Small-caps outperformed mega-cap technology by a little less than 6% as year-to-date laggards continued their string of outperformance.
- **Strong Retail Sales Data:** The market rotation was turbocharged by a stronger-than-expected retail sales print.
- **Biden Bows Out:** Over the weekend, President Biden withdrew from the election.

What we're watching this week

- **U.S. Politics:** Investor reaction to Biden's withdrawal from the Democratic ticket and his endorsement of Vice President Kamala Harris are top of mind.
- **Earnings:** Mega-cap earnings this week will preview the deluge of reports next week.
- **Data:** 2Q GDP to update growth data; PMIs and a read on the Fed's preferred inflation gauge, PCE, will round out the busy week ahead.

Market Perspectives

- The recent volatility we have seen in markets was evident in spades last week. Investors digested rapid-fire political news, better economic data, Fed messaging, and corporate earnings. In times of information overload, positioning tends to become more important, and that looked to be the case last week. Equities continued their recent rotation from the leaders into laggards; the S&P 500 fell almost 2% while small-caps rallied over 2%. Meanwhile, the NASDAQ 100 declined almost 4% on the week, its worst weekly fall since April. Foreign stocks did not benefit from the rotation away from U.S. mega-caps. Broad developed and emerging markets underperformed U.S. large-caps last week; the lack of concrete policy action as China's Third Plenum policy meeting concluded likely contributed.
- It is too early to determine if the "broadening out" (stocks ex-Mag 7) trade is the beginning of a larger trend. However, investors do see pockets of opportunity in more beaten-down parts of the equity market. If economic data, like last week's retail sales report, continues to rebound following the recent soft patch, cyclical and small-cap sentiment could continue to improve. Fed messaging around a rate cut in September could also be a tailwind. The next few weeks are big for the top of the market, too; earnings reports must justify their high multiples.
- Over the weekend, President Biden withdrew from the election. This week, we get a first look at mega-cap tech earnings (Google and Telsa) and many industrial and materials names. Switching to economic data, we get a read on second-quarter GDP in the U.S., PMI surveys for major developed economies, and the Fed's preferred inflation gauge- all important releases for sentiment around the recent equity rotation.

CPI = Consumer Price Index, PPI = Producer Price Index, PMI = Purchasing Managers' Index, PCE = Personal Consumption Expenditures Price Index.

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