Before the Bell

An Ameriprise Investment Research Group Publication

May 2, 2024

Starting the Day

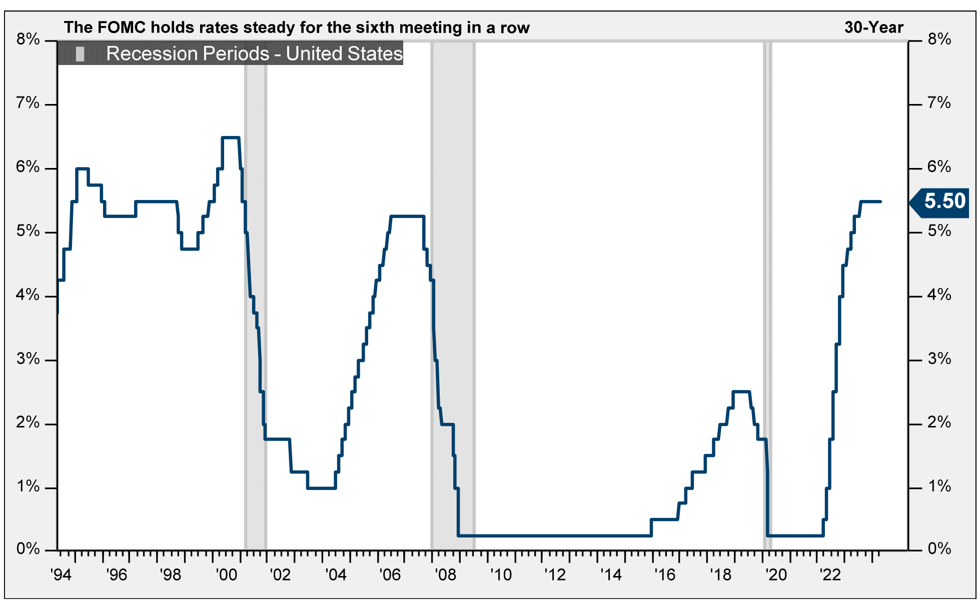
- U.S. futures are pointing to a higher open.
- European markets are trading lower at midday.
- Asian markets ended mixed.
- The Fed holds rates steady for the sixth straight meeting.
- Apple on deck tonight; April jobs report on deck tomorrow.
- 10-year Treasury yield at 4.59%.
- West Texas Intermediate (WTI) oil is trading at $79.48.
- Gold is trading at $2,307.20

Market Perspectives

Anthony M. Saglimbene, Chief Market Strategist

Powell keeps rate hikes off the table and holds firm on policy approach. Stocks finished April lower, with the S&P 500 Index falling 4.2% during the month and the NASDAQ Composite dropping 4.4%. With a reset lower in Federal Reserve rate cut expectations for this year gaining steam last month, selling pressure in the Russell 2000 Index was more pronounced, as the small-cap benchmark lost 7.1% in April. The Dow Jones Industrials Average declined by 5.0% last month.

The major narrative running through financial markets in April centered on economic data that suggests core inflation could remain sticky over the intermediate term (e.g., strong labor trends and elevated home/rent prices). As a result, government bond yields moved higher throughout April, with the 2-year and 10-year U.S. Treasury yields hitting highs last seen in November. Importantly, and before yesterday's Federal Reserve meeting, a growing number of market participants had started to price in just one 25 basis point rate cut out of the Fed this year, down from the three 25 basis point cuts expected at the end of March. Some market participants even started to call for rate "hikes" this year to help curb inflation pressures. Boiled down, an increasing number of investors finally came around to the idea of a "higher for longer" rate environment this year, which challenged elevated stock prices in April and after five straight months of gains.



Bottom line: Coming into yesterday's Fed decision, markets were on edge more than usual. Even though stocks are still sitting on healthy gains over the last six months (e.g., the S&P 500 is higher by nearly +21% since November), mixed economic data

NOTE: FOR IMPORTANT DISCLOSURES, INCLUDING POSSIBLE CONFLICTS, PLEASE SEE THE DISCLOSURE PAGES AT THE END OF THIS DOCUMENT.

in April, higher interest rates, and delayed Fed easing is tempering investor's view for growth, in our view. And even though fundamental conditions around Big Tech appear healthy and corporate profits are expected to grow this year, the S&P 500 currently trades at roughly 24x earnings over the last twelve months, which is a 36% premium to the 20-year average. However, at approximately 20.5x this year's earnings, the S&P 500 is trading at a more modest 16% premium to the 20-year average. Yet, regardless of how you slice it, stocks (including Mega-cap Tech) are not cheap at the moment and, to some extent, priced for perfection. And given rising anxiety around the macroeconomic picture, and where a perfect soft-landing scenario is starting to see some cracks in the narrative, yesterday's Fed decision and comments from Fed Chair Powell himself after the meeting were set to carry a lot of weight with investors.

As expected, the Federal Open Market Committee (FOMC) left its fed funds target rate range unchanged at 5.25% to 5.50% yesterday. The rate remained unchanged for the sixth consecutive meeting and sits at a two-decade high, a level it reached in July 2023. Over recent weeks, a host of policymakers, including Mr. Powell, through speeches and interviews, had gone out of their way to reiterate the committee's well-entrenched position on interest rate policy. In our view, policymakers have clearly articulated to financial markets that the number one metric that would lead to lower interest rates this year is confidence that inflation is on a persistent path to moving to its 2% target. Given warmer inflation trends as of late, we believe policymakers used the last few weeks to help de-risk some of the potential hawkish interpretations from yesterday's Fed update. Interestingly, the options market was positioned for a possible large move in the S&P 500 yesterday, pricing in the widest Fed Day move in the broad-based stock benchmark since May 2023, according to *Bloomberg*.

<u>So, what can investors take away from the latest Fed meeting?</u>

- Stocks ended Wednesday mixed, with the Dow Jones Industrials Average up slightly and the S&P 500 and NASDAQ Composite down less than one-half of a percent on the day. While traders were braced for a big Fed Day move in the stock market, the bark proved far worse than the bite. Government bond yields fell on the day.

- As mentioned above, the Fed left rate policy unchanged. However, the FOMC policy statement saw a few slight adjustments compared to the March statement. Overall, the Fed does not expect that it will be appropriate to reduce the fed funds target rate until it has greater confidence that inflation is sustainably moving toward 2.0%. This language has been present in the statement since January. However, slight tweaks to language around inflation and slowing progress in pushing inflation to target indicate the committee could be more closely watching data for signs of a change in trend. The statement also outlined a slower pace in the Fed's balance-sheet runoff beginning in June. The monthly roll-off cap of U.S. Treasuries was lowered to $25 billion from $60 billion previously. MBS roll-off caps will remain unchanged at $35 billion a month.

- In his press conference, Fed Chair Powell pushed back on the idea that the U.S. economy was at risk of entering a stagflation environment as well as the need to raise interest rates further. In terms of stagflation concerns, Powell said he doesn't really understand where that idea is coming from, saying, "*I don't see the 'stag' or the 'flation'*" pointing out that some measures of growth are above +3.0%, while some components of inflation are below 3.0%. In terms of rate hikes, the Fed Chair said it would be very unlikely the committee would raise the fed funds target rate at the June meeting. Further, Mr. Powell said it would take "*persuasive evidence that our policy stance was not sufficiently restrictive*" to raise rates further. And "*that's not what we think we're seeing*."

- <u>Bottom line:</u> Investors took the Fed's update in stride yesterday and after stocks experienced additional volatility in April. However, the Fed largely telegraphed well ahead of the meeting that rate cuts over the near term are off the table for now and that restrictive policies need more time to run through the economy to sustainably bring inflation back to its 2.0% target. Importantly, the Fed didn't put rate hikes back on the table, which calmed market concerns that policymakers could suddenly change course or that it was becoming reactionary to a few warm months of inflation data. As a result, the broader market continues to forecast one or two rate cuts out of the Fed this year, largely in line with where the odds stood before yesterday's announcement. On the margin, the Fed's updated policy statement offered a bit more acknowledgment that economic conditions continue to evolve. Yet, Powell remained firm in his message that U.S. economic conditions remain healthy, the path toward rate cuts this year is clearly defined, and the Fed is committed to returning inflation to its 2.0% target, which he believes it will achieve. On point, rational messages that, in our view, properly frame rate expectations and the economic outlook as it stands today.

- And finally, with Mr. Powell continuing to signal the next move by the Fed is likely to be a rate cut, we believe the stock market may eventually come to terms with policy conditions and refocus on other fundamental factors, which continue to point toward a healthy economy and growing corporate profits.

U.S. Premarket Indicators / Overnight International Market Activity

United States:

Here is a quick news rundown to start your morning:

- **Stocks are looking at a higher open.** Premarket activity points to a positive open this morning after investors breathed a sigh of relief yesterday that the Fed avoided a feared "hawkish pivot" that may have placed rate "hikes" back on the table for this year. In other items, April ISM manufacturing missed estimates yesterday and fell back into contraction, while April S&P Global manufacturing PMI ticked higher and moved back into expansion. However, commodity prices continued to climb last month (+5.1% m/m in the ISM report). And ahead of tomorrow's closely watched April nonfarm payrolls report, April ADP private payrolls came in at +192K on Wednesday, ahead of the +175K expected, while the March JOLTS report showed 8.49 million open jobs in the U.S., the lowest headline number since March 2021. *FactSet* estimates call for April nonfarm payrolls to grow by roughly +232K, down from +303K in March. Slowing but still firm economic and labor conditions may provide a needed macro boost in the market after stocks dipped lower in April amid growing cracks in the soft-landing narrative.
- **Earnings Update:** With roughly 70% of S&P 500 first quarter reports complete, blended earnings per share (EPS) growth is higher by +4.5% year-over-year on revenue growth of +4.1%. Apple reports their latest results tonight after the bell.

Europe:

Stocks across the region are trading mostly lower following the Labor Day holidays. The economic calendar today is quiet. In the latest OECD economic outlook, the UK is expected to grow at +1.0% in 2025, the slowest pace in the G7. This year, the UK is expected to grow at just +0.4%, down from +0.7% in the OECD's previous forecast. Rapidly rising public spending and higher taxes and interest rates were cited as reasons for the slow growth. Ahead of next week's Bank of England meeting, market odds suggest the first BOE rate cut will likely come in September.

Asia-Pacific:

Stocks in the region finished mixed overnight. Japanese yen volatility has picked up over recent weeks and continued overnight. The yen spiked to 153 versus the U.S. dollar during the session, which prompted speculation that Japanese officials again stepped in to intervene in the currency market. A change in tone around monetary policy from the Bank of Japan more recently, suggesting a slow walk toward policy normalization, has created a wave of volatility in the Japanese yen. Simply, the strategy of borrowing cheaply in the yen and redeploying the capital elsewhere across the world over the last decade-plus may need to be reassessed if the BOJ continues to move monetary policy toward normalization

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WORLD CAPITAL MARKETS

5/2/2024 As of: 8:30 AM ET

Americas	% chg.	% YTD	Value
S&P 500	-0.3%	5.7%	5,018.4
Dow Jones	0.2%	1.1%	37,903.3
NASDAQ Composite	-0.3%	4.2%	15,605.5
Russell 2000	0.3%	-1.9%	1,980.2
Brazil Bovespa	-1.1%	-6.2%	125,924
S&P/TSX Comp. (Canada)	0.1%	4.7%	21,728.5
Mexico IPC	-1.9%	-0.8%	56,728.0

Europe (Intra-day)	% chg.	%YTD	Value
DJSTOXX 50 (Europe)	-0.3%	10.1%	4,907.0
FTSE 100 (U.K.)	0.4%	7.0%	8,152.3
DAX Index (Germany)	0.1%	7.1%	17,942.6
CAC 40 (France)	-0.7%	6.4%	7,931.3
FTSE MIB (Italy)	0.1%	11.3%	33,791.4
IBEX 35 (Spain)	0.3%	9.9%	10,891.7
MOEX Index (Russia)	-0.1%	12.7%	3,465.5

Asia/Pacific (Last Night)	% chg.	%YTD	Value
Nikkei 225 (Japan)	-0.1%	15.1%	38,236.1
Hang Seng (Hong Kong)	2.5%	7.4%	18,207.1
Korea Kospi 100	-0.3%	1.8%	2,683.7
Singapore STI	0.1%	3.4%	3,296.9
Shanghai Comp. (China)	-0.3%	4.4%	3,104.8
Bombay Sensex (India)	0.2%	3.4%	74,611.1
S&P/ASX 200 (Australia)	0.2%	1.6%	7,587.0

Global	% chg.	% YTD	Value
MSCI All-Country World Idx	-0.3%	4.5%	754.3

Developed International	% chg.	%YTD	Value
MSCI EAFE	-0.4%	3.0%	2,271.3

Emerging International	% chg.	%YTD	Value
MSCI Emerging Mkts	0.0%	2.9%	1,045.5

Note: International market returns shown on a local currency basis. ***The equity index data shown above is on a total return basis, inclusive of dividends.***

S&P 500 Sectors	% chg.	% YTD	Value
Communication Services	0.8%	14.4%	280.3
Consumer Discretionary	0.0%	0.4%	1,420.6
Consumer Staples	-0.6%	5.9%	800.6
Energy	-1.6%	11.0%	703.5
Financials	0.0%	7.7%	671.0
Health Care	0.3%	3.6%	1,638.6
Industrials	-0.2%	6.8%	1,025.9
Materials	0.5%	4.5%	561.0
Real Estate	0.1%	-8.9%	227.1
Technology	-1.3%	5.2%	3,567.1
Utilities	1.1%	7.5%	342.7

Equity Income Indices	% chg.	% YTD	Value
JPM Alerian MLP Index	-1.1%	8.4%	275.7
FTSE NAREIT Comp. TR	0.2%	-8.9%	21,795.7
DJ US Select Dividend	0.5%	3.3%	3,103.2
DJ Global Select Dividend	0.1%	2.1%	222.5
S&P Div. Aristocrats	0.1%	2.3%	4,368.2

Bond Indices	% chg.	% YTD	Value
Barclays US Agg. Bond	0.4%	-2.9%	2,098.8
Barclays HY Bond	0.1%	0.6%	2,495.2

Commodities Futures & Spot (Intra-day)	% chg.	% YTD	Value
CRB Raw Industrials	-0.6%	1.5%	551.9
NYMEX WTI Crude (p/bbl.)	0.9%	11.2%	79.7
ICE Brent Crude (p/bbl.)	1.0%	9.4%	84.3
NYMEX Nat Gas (mmBtu)	1.7%	-21.9%	2.0
Spot Gold (troy oz.)	-0.9%	11.5%	2,299.3
Spot Silver (troy oz.)	-1.3%	10.6%	26.3
LME Copper (per ton)	-1.1%	15.6%	9,782.4
LME Aluminum (per ton)	-1.2%	8.9%	2,553.4
CBOT Corn (cents p/bushel)	1.1%	-7.7%	455.8
CBOT Wheat (cents p/bushel)	1.5%	-5.8%	608.0

Foreign Exchange (Intra-day)	% chg.	% YTD	Value
Euro (€/$)	-0.1%	-3.0%	1.07
British Pound (£/$)	-0.1%	-1.7%	1.25
Japanese Yen ($/¥)	-0.1%	-8.9%	154.74
Australian Dollar (A$/$)	0.1%	-4.1%	0.65
Canadian Dollar ($/C$)	0.1%	-3.5%	1.37
Swiss Franc ($/CHF)	0.4%	-7.7%	0.91

Data/Price Source: Bloomberg. Equity Index data is total return, inclusive of dividends, where applicable.

Ameriprise Global Asset Allocation Committee (GAAC)

U.S. Equity Sector - Tactical Views

	S&P 500 Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
Consumer Staples	5.9%	Overweight	2.0%	7.9%
Information Technology	30.0%	Equalweight	-	30.0%
Health Care	12.3%	Equalweight	-	12.3%
Financials	13.1%	Equalweight	-	13.1%
Industrials	8.8%	Equalweight	-	8.8%
Communication Services	8.9%	Equalweight	-	8.9%
Energy	3.9%	Equalweight	-	3.9%
Utilities	2.1%	Equalweight	-	2.1%
Materials	2.3%	Equalweight	-	2.3%
Real Estate	2.3%	Equalweight	-	2.3%
Consumer Discretionary	10.4%	Underweight	-2.0%	8.4%

As of: March 29, 2024

Index weightings represent the respective market capitalization of each sector in the S&P 500 as of 3/21/2024. The GAAC Tactical Overlay, as well as Recommended Tactical Weights, is derived from the Ameriprise Global Asset Allocation Committee (GAAC).Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Global Equity Regions - Tactical Views

	MSCI All-Country World Index Weight	GAAC Tactical View	GAAC Tactical Overlay	GAAC Recommended Weight
United States	62.4%	Overweight	2.1%	64.5%
Europe ex U.K.	13.5%	Overweight	2.0%	15.5%
Japan	5.6%	Overweight	1.0%	6.6%
United Kingdom	3.2%	Equalweight	-	3.2%
Latin America	1.0%	Equalweight	-	1.0%
Asia-Pacific ex Japan	10.3%	Underweight	-3.0%	7.3%
Canada	2.9%	Underweight	-1.0%	1.9%
Middle East / Africa	1.1%	Underweight	-1.1%	0.0%

as of: March 29, 2024

Index weightings are based on the regional market capitalizations of the MSCI All-Country World Index as of 03/21/2024. The GAAC Tactical Overlay, as well as the Recommended Tactical Weights, are derived from the Ameriprise Global Asset Allocation Committee (GAAC). Views are expressed relative to the Index and are provided to represent investment conviction in each region. Tactical Allocations are designed to augment Index returns over a 6-12 month time horizon. Numbers may not add due to rounding.

Economic News and Views:

Russell T. Price, CFA – Chief Economist

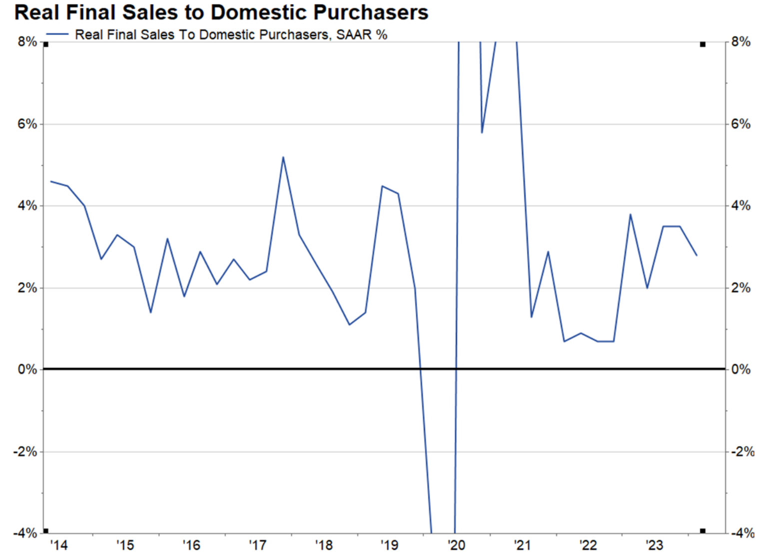
Releases for Thursday May 2, 2024 **All times Eastern. Consensus estimates via Bloomberg**

Time	Period	Release	Consensus Est.	**Actual**	Prior	Revised to
8:30 AM	Apr. 27	New Unemployment Claims	211k	**208k**	207k	208k
8:30 AM	Apr. 20	Continuing Claims	1793k	**1774k**	1781k	1774k
8:30 AM	MAR	Trade Balance	-$69.7B	**-$69.4B**	-$68.9B	
8:30 AM	Q1-A	Labor Productivity	+0.5%	**+0.3%**	+3.3%	+3.5%
8:30 AM	Q1-A	Until Labor Costs	+4.0%	**+4.7%**	+0.4%	0.0%
10:00 AM	MAR	Factory Orders	+1.6%		+1.4%	

Commentary:

- **Hard data on Unemployment Claims continues to reflect a very tight labor market.**
- **Fed Chair discounts stagflation risk.** Fed officials offered no material surprises yesterday at the conclusion of their Federal Open Market Committee (FOMC) meeting. Financial markets seemed to breathe a sigh of relief immediately after the Committee's policy announcement was released as a 'worst case' scenario, i.e., that officials would put the possibility of rate hikes back on the table, did not arise and the Fed Chair seemed to discount the odds of such.
- Of course, Chair Powell noted the Fed's disappointment in recent inflation numbers, but expressed confidence that inflation would slowly continue to move toward the Fed's inflation target of around 2%. He also discounted the very recent fears that the U.S. economy could be slipping into a stagnant economic growth scenario; fears that have grown considerably since last week's slower than expected Q1 GDP report.
- One week ago, the Commerce Department released its initial figures on Q1 Real Gross Domestic Product (GDP). The report showed the economy as having grown by +1.6% on a quarter-over-quarter, annualized basis. The performance was well below the consensus estimate of +2.5% per Bloomberg, was less than half Q4's growth rate of +3.4%, and was the slowest pace since Q2-2022.
- However, Mr. Powell highlighted the fact that Q1's real GDP figure was not really a true reflection of domestic demand, or the current health of business activity. In doing so, he noted the GDP report's measure of "Real Final Sales to Domestic Purchasers" grew by a healthy 2.8% in the period versus Q4's 3.5% pace. Real Final Sales to Domestic Purchasers excludes inventory adjustments (which shaved 0.4 percentage points of growth in the period), trade (which shaved 0.9 pp) and government spending (which added 0.2 pp). From this "cleaner" view, economic activity did moderate in Q1, but the pace remained well within average growth rates for the measure excluding the heart of the pandemic period.

Real Final Sales to Domestic Purchasers



- Overall, we still expect inflation readings to break down over the next several quarters especially once the shelter component of the Consumer Price Index (CPI) catches-up the real-world trends in housing rental rates. The chart below is sourced from FactSet.

Ameriprise Economic Projections

Forecast:	Full-year				Quarterly						
	Actual 2022	Actual 2023	Est. 2024	Est. 2025	Actual Q2-2023	Actual Q3-2023	Actual Q4-2023	Est. Q1-2024	Est. Q2-2024	Est. Q3-2024	Est. Q4-2024
Real GDP (annualized)	1.9%	2.5%	2.2%	1.8%	2.1%	4.9%	3.4%	1.6%	2.6%	1.9%	1.6%
Unemployment Rate	3.6%	3.7%	4.2%	4.2%	3.6%	3.8%	3.7%	3.8%	4.0%	4.1%	4.2%
CPI (YoY)	8.0%	3.4%	2.3%	2.0%	3.0%	3.7%	3.4%	3.5%	3.3%	2.6%	2.3%
Core PCE (YoY)	5.2%	2.9%	2.1%	1.9%	4.3%	3.6%	2.9%	2.8%	2.5%	2.2%	2.1%

Sources: Historical data via FactSet. Estimates (Est.) via American Enterprise Investment Services Inc.

YoY = Year-over-year, Unemployment numbers are period ending. GDP: Gross Domestic Product; CPI: Consumer Price Index

PCE: Personal Consumption Expenditures Price Index. Core excludes food and energy.

All estimates other than GDP are period ending. **Last Updated: May 1, 2024**

Ameriprise Global Asset Allocation Committee Targets and Views

Targets

2024 Year-end Targets:	Favorable Scenario	Base-Case Scenario	Adverse Scenario
S&P 500 Index:	5,400	5,200	4,500
10-Year U.S. Treasury Yield:	4.00%	3.50%	3.00%
Fed Funds Target Range:	4.25% to 4.50%	4.75% to 5.00%	3.75% to 4.00%

Estimates (Est.) via American Enterprise Investment Services Inc.

Please see latest *Quarterly Capital Market Digest* for more information. **Last Updated: April 24, 2024**

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Global Asset Allocation Committee Views

AMERIPRISE GLOBAL ASSET ALLOCATION COMMITTEE TACTICAL ASSET CLASS VIEWS

2024 Year-end S&P 500 Target: 5,200
2024 Year-End 10-year Treasury Target: 3.50%

as of 03/27/2024

	Overweight	Equalweight	Underweight
Equity	• U.S. Large Cap Value • Developed Foreign Equity	• U.S. Large Cap Growth • U.S. Mid Cap Value • U.S. Mid Cap Growth • U.S. Small Cap Value • U.S. Small Cap Growth	• Emerging Foreign Equity
S&P 500 Sectors	• Consumer Staples	• Communication Services • Energy • Financials • Health Care • Industrials • Information Technology • Materials • Real Estate • Utilities	• Consumer Discretionary
Global Equity Regions	• United States • Europe ex U.K. • Japan	• Latin America • United Kingdom	• Asia Pacific ex Japan • Middle East/Africa • Canada
Fixed Income	• U.S. Government • U.S. Investment Grade Corp.	• Developed Foreign Bonds • U.S. High Yield Bonds	• Emerging Foreign Bonds • Municipal Bonds
Alternatives		• Real Assets	• Alternative Strategies
Cash		• Cash • Cash Investments	

Note: Our Tactical Allocations are designed to augment a Strategic portfolio over a 6-12-month time horizon. **Asset Allocation and diversification do not ensure or guarantee better performance and do not eliminate the risk of investment losses. Investors should note that rising interest rates could have a detrimental effect on bond prices. Please consult with your financial advisor.** Cash generally refers to assets, securities and/or products low in risk and highly liquid. For asset allocation purposes, instruments can include Treasury bills, certificates of deposit, money market funds and high quality bonds whose maturities are less than 3 months. Outside of asset allocation purposes, cash investments can also include illiquid cash held in a mutual fund or pledged as collateral for derivatives. You can only access this cash by redeeming the fund using it, subject to fees or time constraints associated with redemptions.

	Rolling Returns			
Major Market Indices	Q1'24	1-year	3-years	5-years
Russell 3000® Index (U.S. Equity)	10.02%	29.29%	9.78%	14.34%
MSCI ACWI Ex USA Index – net (Foreign Equity)	4.69%	13.26%	1.94%	5.97%
Bloomberg U.S. Universal Bond Index (Fixed Income)	-0.47%	2.67%	-2.11%	0.69%
Wilshire Liquid Alternative Index (Alternatives)	3.16%	8.25%	1.95%	2.92%
FTSE Three-Month Treasury Bill Index (Cash)	1.37%	5.52%	2.70%	2.07%

Past performance is not a guarantee of future performance. Performance calculations use FactSet data and are as of March 29, 2024

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The Ameriprise Investment Research Group

With Ameriprise Financial, you can benefit from our dedicated team of experienced investment research and due diligence professionals. Our objective market insight, strategies and guidance are designed to provide you with insight into investment strategies and solutions to help you feel more confident about your financial future. It's the higher level of sophistication and service you've come to expect from Ameriprise.

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As of March 31, 2024

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