

Weekly Market Perspectives

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Can a Strong Start for Stocks Set the Tone for the Rest of the Year?

The S&P 500 Index and NASDAQ Composite finished last week lower, while the Dow Jones Industrials Average recorded its worst week of 2024. Government bond yields climbed higher on the week after mixed economic data/Fed speeches showed the Federal Reserve may not be as ready to cut interest rates as both policymakers and the market believed just a few weeks ago. Energy and Communication Services were the only S&P 500 sectors to finish the week positively, while Health Care, Real Estate, and Consumer Staples took the brunt of the selling pressure.

U.S. Treasury prices were notably weaker across the curve last week as yields moved higher. Year-to-date, the 2-year and 10-year Treasury yields are up over 50 basis points, with the 10-year yield recording its highest level of the year last week. The U.S. Dollar Index pulled back slightly, and Gold pushed higher for its best week since October, moving above \$2,300 per ounce. West Texas Intermediate (WTI) crude settled higher, hitting its best levels in six months.

Coming into the first week of the second quarter, stocks were coming off an incredible first quarter of performance. The S&P 500 Index finished the first three months of the year higher by +10.6% for its fifth positive quarter out of the last six. The double-digit gain is just the fourth time since 2000 that the Index has gained more than +8.0% in the first quarter and only the 17th time since 1950, according to *Dow Jones Market Data*. A strong U.S. economic backdrop, moderating inflation pressures, improving profit conditions, and expectations the Federal Reserve will lower its fed funds rate in the second half of this year were the principal reasons behind stocks tacking on additional gains in Q1 and after the S&P 500 rose +24% in 2023.

Stocks Move Higher on Q1 Profit Growth Expectations

Also, stocks continued to soar higher in the first quarter on building enthusiasm around Artificial Intelligence (AI). Expectations that accelerating profit growth across the AI ecosystem could keep lifting Big Tech higher in 2024 and also smaller-sized companies associated with the theme gave major averages a lift. However, dispersion in performance across the Magnificent Seven in Q1 indicates investors are becoming more discerning about which companies they are willing to push higher, given already extended valuations across a handful of mega-cap stocks.

Interestingly, Health Care and Consumer Staples logged their best quarters since the fourth quarter of 2022, while Financials recorded its fifth straight month of gains — its best run since 2018. In March alone, the Russell 2000 Index rose +3.4%, outperforming the S&P 500's +3.1% gain and the NASDAQ's +1.8% return. In our view, a still strong U.S. economy, healthy consumer/business spending trends, and the potential for lower interest rates by year-end fueled investors' appetite for relative-value opportunities *outside* of Tech/Growth as Q1 came to a close. We believe reduced recession odds for this year, given central bankers' perceived willingness to cut rates in 2024, also helped the rally broaden in Q1.

However, some of those good vibes from Q1 took a hit last week. In a barrage of Fed speeches, policymakers continued to express caution, reiterating that it is too soon to declare victory on curbing inflation and that further evidence of its decline will be needed before the Federal Reserve is comfortable reducing its target rate. **Bottom line:** Barring an unforeseen shock or unexpected deterioration in labor conditions over the next few months (more on that in a moment), the Federal Reserve is more likely to leave rate policy unchanged, which pushes back on assumptions that the Fed is near a point where they are comfortable lowering their policy rate. Market odds now point to a roughly 50/50 chance the Fed will cut its target rate at the June meeting, down from approximately 70/30 odds in favor of a cut one month ago.

Employment Report Shows Labor Trends Are Strong and Resilient

Also helping to inform that change in Fed expectations were several economic reports last week that showed the economy is doing just fine at current rate levels. For example, manufacturing ISM moved back into expansion last month for the first time since September 2022. In addition, final S&P Global U.S. manufacturing PMI remained in expansion in March, with factory output growth hitting a 22-month high. ADP private payrolls jumped to +184,000 last month and higher than the upwardly revised +155,000 private payrolls in February. That said, the March services ISM report came in a little weaker-than-expected last week and down from February levels, though it remained firmly in expansion. S&P Global U.S. services PMI also ticked down to a three-month low in March, though also remained firmly in expansion. Given that the services side of the economy represents roughly 70% of U.S. GDP and is showing signs of slowing, we believe investors took a breath by the end of the week and following data showing rebounding conditions across manufacturing and still strong labor trends.

Speaking of labor trends, U.S. nonfarm payrolls grew by an unexpectedly robust +303,000 last month, and well ahead of the +205,000 jobs expected. The prior two months of job gains were revised higher by +22,000. Job growth last month was strong across healthcare, government, and leisure and hospitality. The unemployment rate dropped to 3.8% in March, down from 3.9% in February, as more workers entered the workforce. Notably, average hourly earnings (a measure of wage inflation) came in largely as expected on a month-over-month basis but fell to +4.1% year-over-year — the lowest level since June 2021.

Bottom line: Labor trends in the U.S. are strong and showing incredible resiliency, in our view. Current economic strength and recent inflation trends showing signs of stickiness likely complicate the Fed's path moving forward, at least over the next few months. As a result, investors should expect some bumps in the road at some point, particularly against rate cut expectations for this year. In our view, the Fed is very unlikely to cut their target rate before their June meeting and may disappoint investors on the number of rate cuts for this year "if" inflation trends firm and labor conditions remain strong over the coming months.

The Week Ahead

Looking out over coming quarters, history suggests a strong start to the year for stocks can bode well for investors through the rest of the year. In the other 16 years that the S&P 500 rose +8.0% or more in the first quarter only in 1987 did the Index close the year lower. Per *Dow Jones Market Data*, the other 15 years saw the S&P 500 close the year higher for an average gain of +9.7% over the subsequent three quarters.

Notably, year-over-year profit growth expectations accelerate as the year moves forward. *FactSet* estimates currently call for S&P 500 earnings per share (EPS) to grow by +2.8% in Q1, +8.8% in Q2, +7.7% in Q3, and by an eye-popping +17.5% in Q4. Given we see economic growth slowing over the course of the year and consumer trends normalizing, outsized profit growth (at least versus expectations later in the year) could be somewhat difficult for companies in aggregate to achieve. Notably, the major U.S. stock averages have not had to deal with an extended period of consolidation or a typical downdraft of 5%, 10%, or even 15%, which can occur during any given year. Investors should expect stocks to face some headwinds at some point for reasons that are likely less obvious today. One example could include interest rates continuing to ramp higher due to stronger-than-expected growth, inflation pressures, and/or growing concerns about the level of deficit spending.

Yet, given underlying consumer/business strength and recession risks for this year coming down, we believe near-term stock weakness could be met with eventual buying activity. So, at the start of the second quarter, investors should stick relatively close to strategic targets, diversify across sectors (including cyclical value areas), and favor the U.S. as well as developed markets, such as Europe and Japan.

This week, it's all about inflation. Investors will get a look at the March Consumer Price Index on Wednesday and the Producer Price Index on Thursday. Core inflation is expected to moderate month-over-month on both a consumer and producer price basis but remains elevated on a year-over-year headline basis. Higher energy prices are likely to play a factor in driving headline inflation figures for March. In the background this week, an update on the NFIB Small Business Index, the March FOMC meeting minutes, and a preliminary look at April Michigan Sentiment will capture investor interest. Finally, the start of the Q1 earnings season kicks off this week, with Delta Airlines, JPMorgan Chase, BlackRock, and Wells Fargo all providing first looks into corporate profit trends during the first quarter.

Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,204	-0.9%	-0.9%	9.5%	25.8	21.5	1.3	1.6
Dow Jones Industrial Average: 38,904	-2.2%	-2.2%	3.8%	23.1	19.8	1.8	2.0
Russell 2000 Index: 5,128	-2.9%	-2.9%	2.2%	46.3	36.7	1.3	1.3
NASDAQ Composite: 16,249	-0.8%	-0.8%	8.5%	39.2	35.2	0.7	0.8
Best Performing Sector (weekly): Energy	3.9%	3.9%	18.1%	12.6	11.0	3.1	3.9
Worst Performing Sector (weekly): Health Care	-3.0%	-3.0%	5.5%	28.3	21.7	1.6	1.6

Source: Factset. Data as of 04/05/2024

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-1.0%	-1.0%	-1.4%
West Texas Intermediate (WTI) Oil: \$86.87	3.5%	3.5%	20.8%
Spot Gold: \$2,330.16	4.3%	4.3%	13.0%
U.S. Dollar Index: 104.30	-0.2%	-0.2%	2.9%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.75%	13 bps chg	13 bps chg	50 bps chg
10-year U.S. Treasury Yield: 4.40%	19 bps chg	19 bps chg	51 bps chg

Source: Factset. Data as of 04/05/2024. bps = basis points

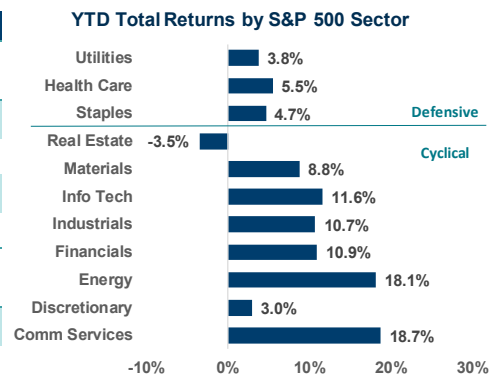
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Source: S&P Global, Factset. Data as of 04/05/2024

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An index is a statistical composite that is not managed. It is not possible to invest directly in an index.

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The **Dow Jones Industrial Average (DJIA)** is an index containing stocks of 30 Large-Cap corporations in the United States. The index is owned and maintained by Dow Jones & Company.

The **Standard & Poor's 500 Index (S&P 500® Index)**, an unmanaged index of common stocks, is frequently used as a general measure of market performance. The index reflects reinvestment of all distributions and changes in market prices but excludes brokerage commissions or other fees.

The **NASDAQ composite** index measures all NASDAQ domestic and international based common type stocks listed on the Nasdaq Stock Market.

The **Russell 2000 Index** measures the performance of the small-cap segment of the US equity universe. The Russell 2000 is constructed to provide a comprehensive and unbiased small-cap barometer and is completely reconstituted annually to ensure larger stocks do not distort the performance and characteristics of the true small-cap opportunity set. The Russell 2000 includes the smallest 2000 securities in the Russell 3000.

The **US Dollar Index (USD)** indicates the general international value of the USD. The USDX does this by averaging the exchange rates between the USD and major world currencies. This is computed by using rates supplied by approximately 500 banks.

The **ADP National Employment Report** is a monthly report of economic data that tracks nonfarm private employment in the U.S.

The **Consumer Price Index (CPI)** is an inflation indicator that measures the change in the total cost of a fixed basket of products and services, including housing, electricity, food, and transportation. The CPI is published monthly by the Commerce Department and is also commonly referred to as the cost-of-living index.

The **Institute for Supply Management (ISM)** manufacturing index is a national manufacturing index based on a survey of purchasing executives at roughly 300 industrial companies. It is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

University of **Michigan Consumer Sentiment Survey** is a rotating panel survey based on a nationally representative sample of households in the coterminous U.S. The minimum monthly change required for significance at the 95% level in the Sentiment Index is 4.8 points; for Current and Expectations Index the minimum is 6.0 points.

Producer Price Index (PPI) measures change in the prices paid to U.S. producers of goods and services. It is a measure of [inflation](#) at the wholesale level. The index is published monthly by the U.S. [Bureau of Labor Statistics \(BLS\)](#).

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