Weekly Market Perspectives

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"Combined with warmer-than-expected inflation trends, still robust growth across the services economy, and U.S. Treasury yields bumping up at their highest levels of the year, some of the more extreme bullish narratives about growth and stock returns for this year are in the process of being tempered."

Growth, Inflation Data and Middle East Tensions Insert Increased Uncertainty Into Soft-Landing Narrative

The S&P 500 Index closed lower by 3.0% last week, posting its third consecutive weekly loss. The U.S. stock benchmark also finished Friday in the red for the sixth straight session – a first since October 2022. Last week's loss now puts the S&P 500 down more than 5.5% from its March all-time high. For the NASDAQ Composite, the selling pressure was more acute. The tech-heavy benchmark fell 5.5% on the week, while the S&P 500 Information Technology Index dropped 7.3%. The NASDAQ is now more than 7.5% off its March highwater mark, quickly retracing some of the gains made in Q1. According to *Dow Jones Market Data*, the Magnificent Seven saw roughly $950 billion of market capitalization erased last week, the most on record. Notably, Tech stocks as a whole posted their biggest weekly loss in seventeen months, as AI-darling NVIDIA entered a technical correction, defined by a 10% or more drop from a recent market top. That said, selling pressure was broad-based across technology and growth-related names all week, including industry groups such as semiconductors and software. On a brighter note, the Dow Jones Industrials Average finished the week relatively flat, held up by exposure to sectors such as Consumer Staples, Financials, and Healthcare. Utilities were the top performer among S&P 500 sectors last week as investors sought out defensive positioning despite the sector's sensitivity to interest rates.

Much of the pressure across stocks last week, and really since the start of the month, has come from investors repricing the number of Federal Reserve rate cuts for this year. A stream of better-than-expected growth and inflation data accompanied by heightened tensions in the Middle East have inserted increased uncertainty into the soft-landing narrative that helped propel stocks higher in the first quarter. Market odds now point to one or two fed fund rate cuts in 2024, down from the six or seven cuts priced at the start of the year. Combined with warmer-than-expected inflation trends, still robust growth across the services economy, and U.S. Treasury yields bumping up at their highest levels of the year, some of the more extreme bullish narratives about growth and stock returns for this year are in the process of being tempered.

Bottom line: We believe stronger-than-expected growth trends in the U.S. recently should be a positive for the economy and corporate profits, at least through the first half of this year. However, the price paid for that firm fundamental backdrop likely leaves inflation elevated and interest rates higher for longer than most expected at the start of the year. In our view, the weakness seen across stocks in April largely reflects investors repricing the reality of the current environment and coming to terms with the fact that stocks don't move in a straight line higher forever.

Cracks in Middle East stability should not be dismissed by investors

In terms of the Middle East, in the absence of an unexpected escalation in Israel and Iran provocations, the market could move the geopolitical issue to the background over the coming days and weeks. While Israel's response to Iran's unprecedented missile and drone attack weighed on markets last week, Israel chose to respond with a very limited strike in Isfahan, Iran, which targeted a military base. Israel did not confirm it carried out the attack, and Iran downplayed the incident. At the moment, both sides appear content with lowering the temperature in the region. Given the U.S. was not involved with the offensive and continues to push for the de-escalation of tensions in the Middle East, investors can breathe a sigh of relief that this “new paradigm” (Israel and Iran attacking each other directly) did not immediately break out into a wider regional war. That said, tensions in the Middle East remain elevated, the Israel-Hamas war is a flashpoint for the region, and cracks in Middle East stability are a geopolitical threat investors certainly should not dismiss.

On the week, West Texas Intermediate (WTI) oil dropped 4.0% in very volatile trading on Israel and Iran tensions. However, crude oil is back to levels prior to the April 1 Israeli strike on an Iranian consulate in Syria. Considering that the price of oil is one of the most direct looks at how investors price Middle East developments and it’s back to levels before tensions escalated, we suspect investors have largely discounted recent events as well as the current state of the region.

The U.S. Dollar Index and Gold moved higher on the week, while U.S. Treasury prices were mostly weaker as yields gravitated higher.

In other items of interest on the week, March retail sales beat estimates, helped by higher gasoline prices and online retailers seeing their best month since January. However, rate-sensitive areas such as building materials and furniture saw sales decelerate last month. Apparel was also weak, indicating retail sales trends below the surface may be moderating more than the headline figures suggest. In addition, housing data came in mixed, with the median price of an existing home in the U.S. rising for the ninth straight month on a year-over-year basis.

The week ahead

In April, stock volatility has climbed from depressed levels and both the S&P 500 and NASDAQ Composite have seen downward momentum that investors haven’t had to deal with since the fall of last year. In our view, there is now a more cautious tone across market psychology, one that is still positive but more sensitive to the risks that persist. However, a more careful tone from market participants has been needed for quite some time. Historically, stocks move through periods of drawdowns and corrections during the year, where a 5%, 10%, or even a 15% decline helps recalibrate investor expectations and can reset stock valuations. Such drawdowns are healthy and allow stocks to consolidate strong gains and provide investors an opportunity to reassess their portfolios and adjust if needed.

However, we believe there is a nagging concern that may continue to weigh on markets over the near-to-intermediate term after this month’s backup in interest rates and evolving Fed policy expectations. While stronger growth in the first quarter likely led to higher-than-expected profits for Corporate America in the January-March period, profit growth remains concentrated in just a handful of companies.

According to *FactSe*t, five companies (Amazon, Alphabet, Meta Platforms, Microsoft, and NVIDIA) are expected to drive roughly 64% of the earnings per share (EPS) growth in the S&P 500 in Q1. The other 495 companies in the Index are expected to see their EPS decline by 6.0% in aggregate. This week, Meta Platforms, Microsoft, and Alphabet report their quarterly results. Investors should expect results and outlooks from these companies to be closely scrutinized, which could have a material influence on whether stocks more broadly continue to see downward pressure or if the recent drop in the market begins to attract buyers.

Bottom line: The concentration of profit growth and stock performance across a select group of stocks is starting to push back on the bullish assessment of macroeconomic conditions. Notably, elevated inflation and delayed Fed rate cuts have dampened a key element of the soft-landing narrative. That is, in an environment where inflation and interest rates are coming down, a wider array of companies and industries are expected to participate in strengthening profit trends and take advantage of resilient consumer and business conditions. Yet, if rates and inflation remain elevated, that expectation could be delayed or even not come to pass as investors expected at the start of the year. Since valuations are already extended across Big Tech, and overall S&P 500 profit growth for this year remains dependent on just a handful of companies continuing to knock the cover off the ball, investors have rightfully turned more cautious heading into the heart of earnings season. Roughly one-third of the S&P 500 will report Q1 earnings results this

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week. As such, investors should have a better handle on how large U.S. companies navigated the previous quarter, as well as have additional insight into how trends are shaping up early in Q2.

Outside of the heavy stream of earnings reports this week, home data, preliminary looks at April manufacturing and services activity, a first look at Q1 U.S. GDP, and the Fed's preferred inflation measure, the core Personal Consumption Expenditure (PCE) Price Index for March will line the economic calendar. We expect Thursday's GDP release to show the U.S. economy grew by +2.3% in the first quarter, driven by still strong consumer trends. And Friday's PCE release could show core inflation moderating to +2.7% year-over-year in March from +2.8% in February.

Stock Market Recap

Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 4,967	-3.0%	-5.4%	4.6%	24.5	21.5	1.4	1.6
Dow Jones Industrial Average: 37,986	0.0%	-4.5%	1.4%	22.5	19.8	1.9	2.0
Russell 2000 Index: 4,840	-2.8%	-8.3%	-3.5%	43.9	36.7	1.4	1.3
NASDAQ Composite: 15,282	-5.5%	-6.7%	2.0%	36.5	35.1	0.8	0.8
Best Performing Sector (weekly): Utilities	1.9%	-0.4%	4.2%	19.4	21.4	3.4	3.2
Worst Performing Sector (weekly): Info Tech	-7.3%	-8.4%	3.3%	34.3	29.6	0.7	0.9

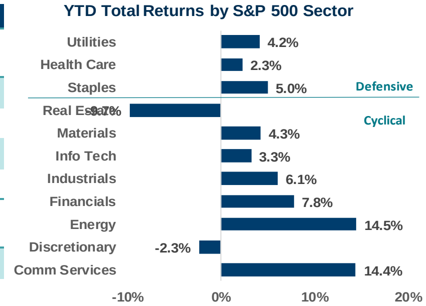
Source: Factset. Data as of 04/19/2024

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.6%	-2.2%	-2.7%
West Texas Intermediate (WTI) Oil: $83.00	-4.0%	-1.1%	15.5%
Spot Gold: $2,392.07	2.0%	7.1%	16.0%
U.S. Dollar Index: 106.15	0.1%	1.5%	4.8%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.98%	8 bps chg	36 bps chg	72 bps chg
10-year U.S. Treasury Yield: 4.61%	9 bps chg	41 bps chg	73 bps chg

Source: Factset. Data as of 04/19/2024. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 04/19/2024

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There are risks associated with **fixed-income** investments, including credit risk, interest rate risk, and prepayment and extension risk. In general, bond prices rise when interest rates fall and vice versa. This effect is usually more pronounced for longer term securities.

The fund's investments may not keep pace with **inflation**, which may result in losses.

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Stock investments involve risk, including loss of principal. High-quality stocks may be appropriate for some investment strategies. Ensure that your investment objectives, time horizon and risk tolerance are aligned with investing in stocks, as they can lose value.

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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 **US Dollar Index** (USDX) 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.

West Texas Intermediate (WTI) is a grade of crude oil commonly used as a benchmark for oil prices. WTI is a light grade with low density and sulfur content.

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