Weekly Market Perspectives

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Stocks Are On Pace To Finish The Month Lower. Will April Showers Bring May Flowers?

The S&P 500 Index climbed +2.7% last week, snapping a three-week losing streak. The NASDAQ Composite gained an even more impressive +4.2% on the week, snapping a four-week winless streak. Each stock benchmark posted its best week since November. The Dow Jones Industrials Average finished higher by +0.7%. However, the flow of the trading week was choppy and driven by investor reactions to a weaker-than-expected first look at Q1 GDP, inflation data that continues to run warm, and generally solid earnings reports from Big Tech. As a result, the S&P 500 ended the week a hair below the 5,100 level, fueled by the S&P 500 Information Technology Index roaring higher by over +5.0%.

U.S. Treasury prices were generally weaker across the curve, though 2-year and 10-year yields settled largely in line with where they started the week. Notably, the Treasury market absorbed another $183 billion in new issuance last week without much incident. The U.S. Dollar Index was roughly flat as the Japanese Yen hit fresh post-1990 lows. Gold gave up 2.3% on the week after four straight weeks of gains, and West Texas Intermediate (WTI) crude rose +2.0% following two consecutive weeks of losses.

Growth in U.S. economy shows signs of slowing

From an economic perspective, growth in the U.S. is starting to show signs of slowing from above-average trends seen in 2023. Preliminary looks at April manufacturing and services activity missed forecasts, reflecting an overall decrease in new orders for the first time in six months. In addition, employers reduced employment for the first time in nearly four years.

Unfortunately, the stronger-than-expected growth in the first quarter, which economists, and the Fed's own GDPNOW model forecast, didn't come to pass as scripted, at least in the first estimate. U.S. GDP expanded by a disappointing +1.6% in the first quarter, much weaker than the *FactSet* estimate of +2.2% and Q4's pace of +3.4%. While inventory destocking played a role in weaker GDP growth in the first quarter, consumer spending on services increased. At the same time, the Q1 GDP Chain Price came in at a surprising +3.1% quarter-over-quarter, warmer than the +2.7% expected and much hotter than the +1.6% pace seen in Q4.

Bottom line: Growth in the U.S. economy was slower than expected in the first quarter, and at the same time, prices paid for goods and services increased more than expected. And even though consumers still spent at a healthy clip in the first quarter, a possible stagflation environment (i.e., growth slowing while inflation remains elevated) adds a new wrinkle into the evolving economic narrative for this year. Although the March Personal Consumption Expenditures Price Index came in mostly in line with expectations last week, the Federal Reserve's preferred inflation measure is still running hotter than policymakers want to see. Thus, following last week's updates on the economy and inflation, market odds are pointing to little chance the Fed will cut rates at this week's meeting or at its June meeting. There is roughly a 1 in 3 chance they cut their fed funds target rate in July, and better than 50/50 odds rates will be lower when the Fed meets in September. Yet, market odds continue to point to just one or two rate cuts in 2024, which was further supported by last week's economic releases. However, we believe the stock market can come to grips with a reduced number of rate cuts for this year *if* fundamental conditions are sound and the Fed's next move is a rate cut.

Big Tech remains primary focus on the earnings front

On the earnings front last week, investors had to digest 158 S&P 500 company reports, with Big Tech the primary focus. Given the hype around Artificial Intelligence, the large gains across Big Tech stocks over the last 12-18 months, and stretched valuations, there was almost no room for disappointment in outlooks from this select group of companies.

While Meta Platforms surpassed earnings estimates in Q1, the company provided revenue guidance that was light of expectations. Meta also said the ramp up in investment in AI and the Metaverse would cost more than initially reported and that the "payoff" (i.e., generating revenue on these investments) would take longer. Not surprisingly, Meta's commentary didn't sit well with investors after the stock's strong year-to-date gains. As a result, Meta's stock finished the week lower.

Yet, we would argue that one company's capital expenditure in AI is another company's revenue. Today, gobs of dollars need to be spent on building out the backbone, infrastructure, and language of generative AI, which predominately benefits a select group of hardware makers and Big Tech. However, as AI becomes increasingly accessible to smaller companies and software using AI becomes more ubiquitous across industries and households, we expect the benefits of the technology to reach far beyond today's obvious winners.

That said, Microsoft and Alphabet delivered very strong results and outlooks that sent their stock prices higher during the week. Microsoft beat elevated Q1 profit expectations with revenue growth accelerating in Azure by an eyepopping +31% year-over-year in Q1. AI helped boost Azure's profitability, and Microsoft's overall profit guidance impressed investors. Similarly, Alphabet reported a big Q1 profit beat, saw growth accelerate in search and YouTube, and AI increased its contribution to Cloud performance. Along with solid margins, the initiation of its first dividend, and a healthy outlook, investors also liked what they heard from Alphabet last week. Notably, investors are breathing a sigh of relief that Big Tech earnings reports largely kept the positive narrative around AI intact, and the outlook for profit growth from these index heavyweights remains bright.

With roughly half the S&P 500 now having reported their first quarter earnings, the blended earnings per share (EPS) growth rate stands at +3.5% year-over-year on revenue growth of +4.0%. Q1 earnings trends are largely where analysts expected profit growth to be at the end of March. In addition, the average company Q1 EPS beat rate stands at +8.4%, near the five-year average. As long as this week's profit reports and outlooks from Amazon (Tuesday) and Apple (Thursday) don't surprise to the downside, we believe the generally positive Q1 earnings season, as a whole, could offer support for stock prices in the second quarter. Of course, NVIDIA's earnings release later in May will likely play a key role in how investors interpret not only the Q1 earnings season, but the AI profit outlook over the quarters ahead.

The week ahead

Despite last week's strong stock performance, major U.S. stock averages remain on pace to finish lower in April. Continued consumer resiliency and sticky inflation have led to a reset lower in the number of expected Fed rate cuts for this year. As a result, an aggressive push higher in interest rates in April has pushed back against the uninterrupted, upward momentum in stock prices seen over the last five months. With just two days left of trading in April, the S&P 500 is down 2.9% month-to-date, while the NASDAQ is off 2.7%.

While a few April showers have tempered the more aggressively bullish outlooks for stocks over the intermediate term, we continue to see a path higher for stocks as the second quarter evolves. The secular AI growth theme remains intact, first quarter earnings and outlooks are tracking well, and the earnings blackout period for corporate stock buybacks is coming to an end. In addition, consumers remain willing to spend on items such as housing, travel, and autos. Finally, though inflation is elevated, pressures appear contained (though, yes, recent stagflation concerns, longer payback periods for AI investment, elevated valuations across Big Tech, and interest rate headwinds are certainly items to watch). These more bearish elements certainly have the potential to derail stock momentum in the months ahead. However, as long as the U.S. economy and corporate profits are expected to grow, stock prices are likely to climb the proverbial *wall of worry*, in our view.

In the coming days, investors are likely to see several stories in the press rehashing the annual *Sell in May and Go Away* market theory. The theory highlights that stocks underperform in the May through October time frame, and the best period for stock performance tends to be in the November through April period. However, this market theory relies on very long stretches of time and does not account for the diversification of asset types, tax consequences, or extended periods when the theory did not perform well. Though seasonal patterns in the stock market tend to exert some presence over very long periods, equities are most consistently influenced by growth in the economy and trends in corporate profits, regardless of the month on a calendar.

This week, investors will be very busy. The Federal Reserve will deliver its policy update on Wednesday and is widely expected to leave rate policy unchanged. Investors will parse the policy statement for potential changes to language that suggest or hint the Federal Reserve may delay rate cuts. Expect Fed Chair Powell to be grilled by reporters in his press conference after the release of the policy statement on whether a July or September rate cut remains in scope.

From an earnings perspective, this week is the busiest of the first quarter reporting season, with 175 S&P 500 companies scheduled to report results, including Amazon and Apple.

And finally, on the economic front, it's all about jobs, jobs, jobs. Wednesday's April ADP private payrolls report, and March JOLTS report will set up Friday's closely watched April nonfarm payrolls report. *FactSet* estimates see job growth in the U.S. moderating to +220,000 jobs this month, down from the eyepopping +303,000 pace in March. The unemployment rate is expected to hold steady at 3.8%. In the background this week, home data, consumer confidence, and updated looks at ISM manufacturing/services data will also capture investor interest.

Stock Market Recap

Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,100	2.7%	-2.9%	7.4%	25.1	21.5	1.4	1.6
Dow Jones Industrial Average: 38,240	0.7%	-3.9%	2.0%	22.7	19.8	1.9	2.0
Russell 2000 Index: 4,975	2.8%	-5.7%	-0.8%	45.0	36.7	1.4	1.3
NASDAQ Composite: 15,928	4.2%	-2.7%	6.3%	38.0	35.2	0.7	0.8
Best Performing Sector (weekly): Info Tech	5.1%	-3.7%	8.5%	36.1	29.6	0.7	0.9
Worst Performing Sector (weekly): Materials	0.7%	-3.6%	5.0%	24.6	18.1	1.9	2.0

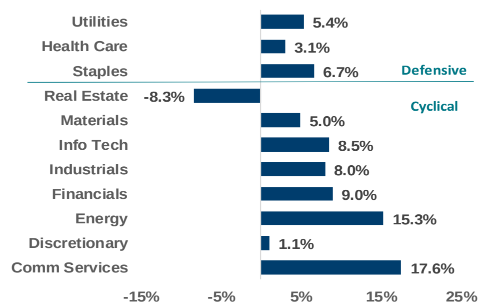
Source: Factset. Data as of 04/26/2024

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	0.0%	-2.3%	-2.7%
West Texas Intermediate (WTI) Oil: $83.78	0.0%	-0.2%	16.5%
Spot Gold: $2,338.05	-2.3%	4.7%	13.3%
U.S. Dollar Index: 105.94	-0.2%	1.3%	4.5%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.97%	-1 bps chg	35 bps chg	72 bps chg
10-year U.S. Treasury Yield: 4.67%	5 bps chg	46 bps chg	78 bps chg

Source: Factset. Data as of 04/26/2024. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 04/26/2024

These figures are shown for illustrative purposes only and are not guaranteed. They do not reflect taxes or investment/product fees or expenses, which would reduce the figures shown here. An index is a statistical composite that is not managed. It is not possible to invest directly in an index. Past performance is not a guarantee of future results.

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Past performance is not a guarantee of future results.

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 **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.

The **GDPNow** forecasting model provides a "nowcast" of the official GDP estimate prior to its release by estimating GDP growth using a methodology similar to the one used by the U.S. Bureau of Economic Analysis. GDPNow is not an official forecast of the Atlanta Fed. It is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model.

Personal consumption expenditures (PCE) are a measure of the outlays or how much consumers are spending. The PCE reading is released monthly by the Bureau of Economic Analysis.

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