Weekly Market Perspectives

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Investors Less Certain About Direction of Stock Prices Amid Firehose of Information

Last week, the S&P 500 Index climbed higher by +1.9%, locking in its third straight week of gains. The Index is now less than 1.0% away from its record close in late March and appears to be brushing aside its rather modest and brief decline in April. On Friday, the Dow Jones Industrials Average notched its eighth straight day of gains, recording its longest winning streak of the year. The Dow rose +2.2% on the week. Rounding out the performance across the other major U.S. stock averages, the NASDAQ Composite and Russell 2000 Index each rose +1.2% last week.

At the sector level, Utilities jumped over +4.0% on the week and are up roughly +10.0% over the last thirty days. Utilities have been in somewhat of a "stealth rally" as of late as markets continue to price in rate cuts later this year and investors begin to recognize the growing power and electricity needs that data centers and artificial intelligence endeavors will likely need to run effectively. However, Financials (+3.1%), Materials (+2.6%), and Consumer Staples (+2.3%) also outperformed on the week, helping to recast a cyclical value tone across the market and one that seemed to have faded following renewed attention in Big Tech earlier in the year.

Over in bonds, the 2-year U.S. Treasury yield crept slightly higher on the week as its price fell, while the 10-year yield finished essentially flat. Month-to-date, government bond yields are down modestly, giving back some of the strong gains seen in April. At current levels, the direction of government bond yields may play an important role in shaping near-term stock direction. This week's key April consumer and producer inflation reports will likely influence how government bond yields trade and stocks react. Inflation data that shows further signs of easing pressure could put a downward force on rates this week, which may help the S&P 500 inch closer or even surpass its March high. Conversely, inflation data that shows stalled progress, or worse, trends higher, could put upward pressure on rates and downward pressure on stock prices. That said, given the current state of inflation in the U.S., an elevated fed funds rate, and large weekly government bond auctions, investors should expect government bond yields to remain on the higher end of their historical range over the intermediate term.

Outside of stocks and bonds, the U.S. Dollar Index rose slightly across a basket of currencies and Gold ended the week up roughly +2.5%. Notably, West Texas Intermediate (WTI) crude ended last week lower, rejecting attempts to push back above $80 per barrel.

The current macroeconomic narrative

Moving the focus out a bit, the S&P 500 is up about +5.5% over the last three months. Yet, investors have had to navigate through a couple of waves of shifting currents over that period, which may now leave them less certain about where stock prices are headed next. Notably, the S&P 500 melted higher through the end of March, hitting a high-water mark of 5,264 on March 28. The Index then proceeded to fall through its 50-day moving average in April before finding some support around its 100-day moving average as the month started to wind down. Notably, the last few weeks have put investors on information overload, as a firehose of Q1 earnings releases, economic updates, and a Fed policy meeting have provided an abundance of information to digest and, importantly, drive stock direction.

The net effect of all that recent information has resulted in the following macroeconomic narrative:

- Big Tech earnings mostly surpassed elevated expectations in Q1 and kept Q2 outlooks mostly positive.
- Profit trends across other industries were generally solid in the previous quarter, and the Q2 outlook points to further earnings growth.
- Economic activity is slowing but remains solidly positive, and consumer and business trends point to a firm foundation.
- And finally, the base case scenario for the Federal Reserve continues to point to rate cuts later this year.

As a result, government bond yields are down meaningfully from their late April highs, which has allowed stocks some headroom to recoup much of April's losses. However, for stocks to test the late-March highs or fall back to lower moving average levels, new catalysts are likely needed to inform stock direction.

While stocks melted higher last week, the lack of market-moving economic data and key earnings reports had investors largely inside a brief information void. In addition, a batch of Federal Reserve speeches and commentary didn't really alter the rate backdrop. And while the lack of high-profile Q1 earnings releases didn't change the profit narrative too much, S&P 500 Q2 earnings per share (EPS) estimates ticked higher, adding a slight tailwind for stock prices.

The most notable economic release of last week came Friday when a preliminary look at May Michigan Sentiment came in well below estimates and fell meaningfully from April levels, hitting its lowest headline level since November. Consumer expectations about current conditions and the future both fell, while one-year ahead and five-year ahead inflation estimates ticked higher. Interestingly, stalled inflation trends and elevated interest rates likely played a role in the broad deterioration in consumer sentiment across age, income, and education groups in the latest sentiment survey. Combined with the April Consumer Confidence report, consumers may be starting to see inflation, unemployment, and interest rates moving in the wrong direction. While the Fed wants to see some deterioration in the consumer outlook to help bring price trends more in balance, rising inflation expectations is a recent development policymakers will likely pay close attention to over the next couple of reports. Importantly, the Fed sees inflation expectations playing a key role in driving future price trends, and recent survey data suggests consumers are becoming less confident that inflation will move lower over time.

The week ahead

Last week's sentiment data and information void aside, this week's inflation updates, a retail sales report, and earnings releases from two key retailers may help provide new catalysts to help drive the next leg of stock direction. Simply, the tailwinds of falling consumer and producer inflation that helped power stock gains last year have stalled at elevated levels over the last few months. On Tuesday, the April Producer Price Index (PPI) is expected to edge higher on a headline basis but remain largely static on a core (ex-food and energy) basis. However, Wednesday's closely watched April Consumer Price Index (CPI) is expected to show headline inflation dropping to +3.4% year-over-year from +3.5% in March. Importantly, annualized April core CPI is forecast to fall to +3.6% from +3.8% in March.

Bottom line: Investors are expecting inflation to fall in April. Even if the decline is slight, markets are looking for further evidence that the downward trend in inflation remains intact and, importantly, is not in the process of reversing course higher.

In addition to key inflation reports this week, investors will receive updates on consumer trends through Wednesday's April retail sales report, as well as retail earnings reports from Home Depot and Walmart. With consumer sentiment showing some recent cracks amid elevated inflation and interest rates, investors will likely be looking to see if spending resiliency continued in April or if consumers' souring mood has begun to affect their spending habits. On the earnings side, Home Depot will report its latest profit results on Tuesday, and Walmart will report on Thursday.

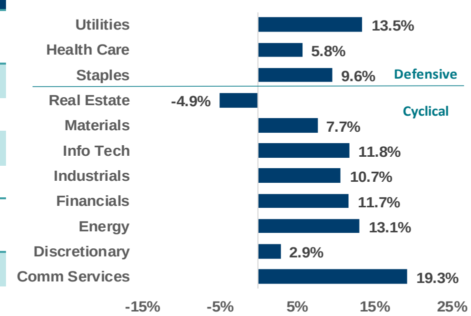
Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,223	1.9%	3.8%	10.0%	25.7	21.9	1.3	1.6
Dow Jones Industrial Average: 39,513	2.2%	4.5%	5.5%	23.4	19.8	1.8	2.0
Russell 2000 Index: 5,119	1.2%	4.4%	2.1%	46.2	36.9	1.3	1.3
NASDAQ Composite: 16,341	1.2%	4.4%	9.1%	38.9	34.9	0.7	0.8
Best Performing Sector (weekly): Utilities	4.1%	6.8%	13.5%	21.3	21.4	3.0	3.2
Worst Performing Sector (weekly): Consumer Discretionary	0.2%	2.5%	2.9%	28.2	30.9	0.7	0.9

Source: Factset. Data as of 05/10/2024

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	0.1%	1.3%	-1.5%
West Texas Intermediate (WTI) Oil: $78.21	-1.8%	-6.3%	8.8%
Spot Gold: $2,360.52	2.6%	3.3%	14.4%
U.S. Dollar Index: 105.30	0.3%	-0.9%	3.9%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.87%	6 bps chg	-17 bps chg	62 bps chg
10-year U.S. Treasury Yield: 4.49%	-1 bps chg	-19 bps chg	61 bps chg

Source: Factset. Data as of 05/10/2024. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 05/10/2024

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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.

A rise in **interest rates** may result in a price decline of fixed-income instruments held by the fund, negatively impacting its performance and NAV. Falling rates may result in the fund investing in lower yielding debt instruments, lowering the fund's income and yield. These risks may be heightened for longer maturity and duration securities.

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.

The products of **technology** companies may be subject to severe competition and rapid obsolescence, and their stocks may be subject to greater price fluctuations.
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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 **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.

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.

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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