Weekly Market Perspectives

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"With the S&P 500, NASDAQ, and Dow all tracing fresh all-time highs, investor sentiment has again shifted toward a more accepting view of current conditions, and one that continues to see lower inflation and rising profits driving a soft-landing for the U.S. economy this year."

Investor Sentiment Has Again Shifted Toward a More Accepting View of Current Conditions

Major U.S. stock averages posted their fourth straight week of gains, with the S&P 500 Index rising +1.5% last week. The broad-based equity benchmark made its 23rd new closing high for the year on the back of cooling inflation trends and slower consumer activity that may help ease price pressures in the months ahead. In addition, the Dow Jones Industrials Average (+1.2% on the week) crossed the 40,000 level for the first time, and the NASDAQ Composite jumped +2.1%, as Information Technology rose nearly +3.0% last week.

Notably, the S&P 500 is higher by +5.4% month-to-date, on track for its best month of the year, and has more than wiped out April's decline. With the S&P 500, NASDAQ, and Dow all tracing fresh all-time highs, investor sentiment has again shifted toward a more accepting view of current conditions, and one that continues to see lower inflation and rising profits driving a soft-landing for the U.S. economy this year.

Along with improving inflation sentiment last week, "meme stocks" saw a surge in activity. Stocks, such as GameStop and AMC Entertainment, saw a resurgence in speculation and volatility after Keith Gill (i.e., Roaring Kitty), a leading figure in the meme craze of 2020 and 2021, made his online return. As one would expect, the renewed meme stock activity received notable press last week, but like a few years ago, it's a small sideshow to the far more important factors driving markets and the economy today.

Along with strong gains in Technology last week, Real Estate (+2.5%) and Healthcare (+1.8%) led the S&P 500 higher, with only Industrials (-0.4%) and Consumer Discretionary (-0.06%) closing the week lower.

Over in fixed income, U.S. Treasury prices rose modestly last week, with yields on the 2-year and 10-year falling slightly. However, month-to-date, the 2-year Treasury yield is down an impressive 21 basis points, and the 10-year yield is down even more at 26 basis points. Notably, concerns in April regarding persistent inflation, tight Federal Reserve policy, and hot economic trends have been replaced in May by evidence of cooler inflation and a Fed still likely on a path to cut rates this year as growth slows.

Outside of stocks and bonds, the U.S. Dollar Index was down against other major world currencies last week, Gold rose +2.3%, and West Texas Intermediate (WTI) crude settled higher by +0.3%. Interestingly, Copper rose +8.4% last week, posting its best week since March 2022. Several factors are behind the rise in precious and industrial metal prices this year. Concerns regarding the U.S. government's debt and deficit spending predicament have fueled demand for Gold, both here and abroad, while growing electricity needs and increasing industrial demand have helped place a bid under copper prices. Of course, a little softening in the U.S. dollar over recent weeks hasn't hurt metal prices either.

Inflation pressures and interest rate policy keep investors on edge

From a macroeconomic perspective, the one factor that has kept investors on edge all year, despite higher stock prices, has been concerns about persistent inflation pressures in the U.S. and its effect on interest rate policy. After months of generally stalled inflation progress and warmer-than-expected monthly readings in consumer and producer price measures, investors were looking at last week's Producer Price Index and Consumer Price Index updates to determine if the overall shift lower in inflation had started to crack.

Unfortunately, April PPI didn't give investors the warm and fuzzies about current inflation trends across the wholesale category. Notably, headline and core (ex-food and energy) PPI came in much hotter than expected last month on a month-over-month basis. And while annualized measures of PPI were mostly in line with expectations, and March PPI levels were revised lower, the majority of last month's rise in producer inflation came from the "stickier" services components.

Fortunately for stock prices, investors were able to breathe a sigh of relief last week, and after the latest CPI report showed the overall narrative of gradually falling consumer inflation remains intact. Notably, headline CPI rose less than expected in April and below March's level. April core CPI also came in weaker than expected and below March's level. On an annualized basis, headline CPI rose by +3.4%, and core CPI grew by +3.6%. Both measures were below March levels, with core CPI declining to its lowest level since April 2021.

However, though consumer inflation cooled more than expected last month, there is work ahead for overall consumer prices to move back to normalized levels, with the last mile of services inflation proving more entrenched than most expected at the start of the year. Thus, most of the market continues to see the first Federal Reserve rate cut not coming until September.

In addition to key updates on inflation, April retail sales came in weaker than expected, affected by seasonal factors, bad weather, and stress across low-income consumers. Also, April housing starts missed consensus forecasts, and regional Fed surveys showed continued stress in the manufacturing economy.

Bottom line: Consumer trends are showing further signs of normalization, which could help services inflation moderate in the months ahead. At the same time, the manufacturing side of the economy, as well as housing, remains strained by elevated rates, supply issues, price pressures, and weaker demand in certain areas. In our view, a soft landing for the economy may look a little messier than stock prices likely reflect today. Thus, maintaining a generally optimistic view of the future, but one that leans on a balanced portfolio approach, could be a prudent way to navigate the summer months.

The week ahead

Given the reversal in stock prices this month from the April lows and major averages now tracing new highs, equities are at or approaching technical levels that could create some near-term resistance this week (depending on incoming data). In our previous commentary, we discussed the idea that investors needed new catalysts to push stocks past their previous highs. Last week, investors received those catalysts through cooler-than-expected consumer inflation updates and economic data that showed activity is slowing.

This week's look at April existing and new home sales and preliminary looks at May manufacturing and services activity should provide further color into how economic conditions have evolved since the end of Q1. *FactSet* estimates expect that both manufacturing and services activity this month held roughly static versus April levels, with both remaining in an expansionary state. Readings that show flat-to-slightly weaker manufacturing and services growth this month could be interpreted by investors as a positive and help push stock prices higher. Conversely, data that shows activity accelerating more than expected could push back on rate cut expectations, which could weigh on stock prices already at highs. Regardless of the market impact, we don't see this week's data or the latest FOMC Minutes on Wednesday changing the overall macroeconomic narrative, particularly against a heavy slate of speeches from policymakers this week.

Interestingly, the latest Atlanta Fed GDPNow forecast points to a robust +3.6% growth rate in the second quarter. Simply put, that growth rate is likely too hot to cool inflation more meaningfully over the coming months, and as a result, suggests that Fed rate cuts could be pushed out further than investors anticipate. However, the Atlanta Fed's GDP model tends to become more informative at the end of a current quarter and as more economic data is reflected in the model. Nevertheless, we are again in a "bad news is good news" environment, as long as that bad news isn't too bad. Yeah, we know, reading the market's tea leaves can sometimes be a head-scratcher.

Yet, how markets perform this week may largely come down to how investors react to NVIDA's first quarter earnings results and outlook on Wednesday. The poster child for artificial intelligence and its critical semiconductors needed to train large language models are at the center of driving the technology sector and broader U.S. stock averages higher this year. With NVIDIA already up nearly +87% year-to-date and over +206% over the last twelve months, what this company has to say about its results and view of the AI outlook could have near-term ripples across a range of tech stocks this week. Also, this week, a batch of retail earnings reports from Target, Lowe's, and Ross Stores line the final stretch of the Q1 earnings season.

Stock Market Recap

Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,303	1.6%	5.4%	11.8%	25.5	21.9	1.3	1.6
Dow Jones Industrial Average: 40,004	1.3%	5.9%	6.9%	23.9	19.8	1.8	2.0
Russell 2000 Index: 5,208	1.8%	6.3%	3.9%	52.0	36.9	1.3	1.3
NASDAQ Composite: 16,686	2.2%	6.6%	11.5%	38.9	34.9	0.7	0.8
Best Performing Sector (weekly): Info Tech	2.9%	8.0%	15.1%	37.2	30.0	0.7	0.9
Worst Performing Sector (weekly): Industrials	-0.3%	3.2%	10.4%	25.1	22.4	1.4	1.6

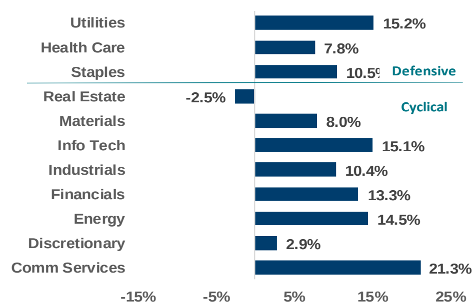
Source: Factset. Data as of 05/17/2024

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	0.6%	1.9%	-0.9%
West Texas Intermediate (WTI) Oil: $80.06	0.3%	-4.1%	11.4%
Spot Gold: $2,414.72	2.3%	5.6%	17.1%
U.S. Dollar Index: 104.45	-0.8%	-1.7%	3.1%
Government Bond Yields	**Yield Chg**		
	Weekly	**MTD**	**YTD**
2-year U.S. Treasury Yield: 4.83%	-4 bps chg	-21 bps chg	58 bps chg
10-year U.S. Treasury Yield: 4.42%	-7 bps chg	-26 bps chg	53 bps chg

Source: Factset. Data as of 05/17/2024. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 05/17/2024

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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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.

The **precious metals** market is subject to substantial fluctuations including significant and rapid increases and decreases in value from time to time. Investors must be able to assume the risk of such price fluctuations.

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.

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 **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 **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.

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).

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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