Weekly Market Perspectives

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Several Economic Reports This Week Could Help Shape Stock Direction

The S&P 500 Index finished fractionally higher by +0.03% last week, barely meeting the bar to post its fifth consecutive week of gains. However, NIVIDA's strong earnings report and positive outlook on artificial intelligence helped the NASDAQ Composite gain +1.4% last week, also its fifth straight week of positive returns. Yet, weekly returns were mixed across the major averages, with the Dow Jones Industrials Average falling 2.3% and the Russell 2000 Index dropping 1.2%. For the Dow, last week's decline snapped a five-week winning streak. Overall, stock volume was low, particularly as the week drew closer to the Memorial Day holiday. Information Technology (+3.4%) and Communication Services (+0.3%) were the only two S&P 500 sectors to finish the week higher, while Energy (-3.8%), Real Estate (-3.7%), and Financials (-2.0%) weighed down the broader S&P 500.

In fixed income, U.S. Treasury prices were weaker across the curve. The Federal Reserve-sensitive 2-year yield jumped 12 basis points on the week as preliminary reads on May services and manufacturing activity came in hotter-than-expected. **Bottom line: Bond yields moved higher last week as investors grappled with the timing and degree of potential Fed rate cuts for this year and against a backdrop of a still strong services economy.**

The U.S. Dollar Index finished the week slightly higher, and Gold dropped 3.3% for its worst week of the year. Copper fell nearly +6.0% last week for its worst week since November 2022 after touching a record high on Monday. West Texas Intermediate (WTI) crude finished lower by nearly 5.0%.

A closer look at the S&P 500

Notably, the S&P 500 appears to be building a base around 5,300 and was able to finish last week above the level for the second straight week. However, the Index is trading at historically elevated levels when Big Tech stocks are included. For example, the S&P 500 as a whole is currently trading at a 41% premium to its 20-year average based on the last twelve months of earnings. Based on this year's earnings expectations, the S&P 500 still trades at a 23% premium to the trailing twelve months of earnings. In our view, a lot of future good news on the profit front is already baked into the S&P 500 at current levels.

Nevertheless, the broader S&P 500 isn't as expensive as a simple price-to-earnings multiple might suggest outside of a handful of mega-cap stocks. Along with still relatively healthy free cash flow and debt-to-free cash flow multiples for the S&P 500 versus history, when one backs out Big Tech from the broader average (which has been a key driver to the market's performance/earnings growth this year), eight of eleven sectors still have forward price-to-earnings ratios below the overall market. **Bottom line: Under the surface, several stocks and sectors are still attractively priced based on their forward earnings expectations over the next twelve months.**

Interestingly, and despite the concentrated returns in the S&P 500 this year, over two-thirds of S&P 500 stocks are higher in 2024, with roughly one-third outperforming the broad-based stock benchmark. This indicates positive momentum across the S&P 500 despite top-heavy returns in a few stocks.

Importantly, the stocks that are sending the S&P 500 higher this year are also the companies with outsized profit growth, visible secular drivers, and fortress balance sheets to invest, grow, and weather many types of macroeconomic and business conditions. Under this light, it makes sense to us why market returns are concentrated into a handful of mega-cap stocks.

However, as investors moved through the Q1 earnings season, they learned a broad set of companies are holding margins, controlling costs, and where adjustments need to be made (e.g., recent results and comments from retailers), and are quickly evolving to demand dynamics. A growing economy this year could help a broader set of industries outside of Big Tech see profit trends improve, particularly if the Fed can start cutting rates later this year.

Turning back to the week, from a stock perspective, it really was all about NVIDIA and its first quarter earnings report. In a nutshell, the company handily exceeded analyst forecasts (and whisper numbers) for earnings per share and revenue, guided second quarter profit expectations higher, provided a very positive outlook for AI trends over the intermediate term, substantially increased its dividend on a percentage basis, and announced a 10-1 stock split. With expectations elevated coming into NVIDIA's report last week, investors couldn't have asked for a better result, in our view.

Cautiousness on the economic front

On the economic front, there was a somewhat cautious mood following hotter-than-expected May flash PMI updates. A preliminary look at composite May PMI showed overall economic activity climbing further into expansion versus consensus and April levels, driven by "strengthening" services activity. In fact, the report noted that business activity growth rose sharply this month and at its fastest pace in over two years. Notably, strong services activity, including elevated rents, has been a primary factor in keeping consumer inflation elevated. In our view, the current market dynamic likely means the Federal Reserve has to leave rate policy higher for longer, taking some momentum out of the market last week despite NVIDIA's strong earnings report.

However, other economic updates showing weaker than expected existing and new home sales in April, mostly inline jobless claims, Fed minutes from the last FOMC meeting generally coming in as expected, and Michigan consumer sentiment falling to a five-month low, likely keep the soft-landing narrative alive for now. That said, last week's speeches from Fed officials continue to point to a higher-for-longer rate environment.

The week ahead

U.S. markets return to a quiet backdrop at the start of the week after Monday's Memorial Day holiday. Yet, as the week rolls on, investors will have several important economic reports to digest that could help shape stock direction. With investors still concerned about consumer inflation trends in the U.S. and the generally stubborn pace of decline on the services side, Friday's Personal Consumption Expenditures (PCE) Price Index will be the key report to watch.

According to *FactSet* estimates, the Fed's preferred inflation measure is expected to show April core PCE held steady at +2.8% year-over-year for the third straight month. Headline PCE is expected to also have held steady last month, rising +2.7% year-over-year. While this week's PCE inflation updates are somewhat backward-looking and follow already released April looks at the Consumer Price Index report, both headline and core PCE measures are expected to remain above the Fed's comfort level. Thus, we do not expect the PCE updates this week to change the Fed narrative much, particularly if core inflation remains around current levels.

Tuesday's May Consumer Confidence report should also grab some headlines, considering last week's weaker-than-expected updates in Michigan consumer sentiment. Last month, Consumer Confidence dropped to a 21-month low. Overall, consumers continue to grapple with persistent inflation pressures in the here and now, which has more recently caused expectations of future inflation to rise. This is a troubling development for the Fed and a dynamic we expect policymakers to watch very closely over the months ahead.

Finally, a batch of home data across the week, the Fed Beige Book (Wednesday), a second look at Q1 GDP (Thursday), and auto sales (Friday) should keep investors and markets busy. In the background, the U.S. Treasury will be selling $183 billion in short and intermediate coupon bonds this week. Recent offering results from the Treasury have been mixed, with elevated inflation pressures at times weighing on demand.

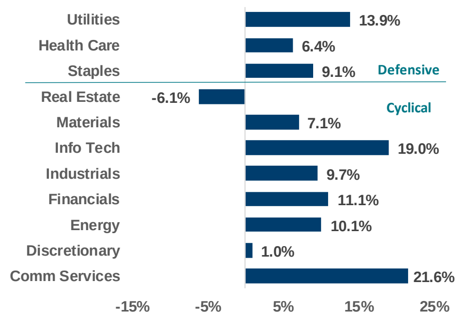
Stock Market Recap							
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,305	0.0%	5.5%	11.8%	25.5	21.9	1.3	1.6
Dow Jones Industrial Average: 39,070	-2.3%	3.5%	4.4%	23.4	19.8	1.8	2.0
Russell 2000 Index: 5,144	-1.2%	5.0%	2.6%	50.5	36.9	1.3	1.3
NASDAQ Composite: 16,921	1.4%	8.2%	13.1%	39.4	34.9	0.7	0.8
Best Performing Sector (weekly): Info Tech	3.4%	11.7%	19.0%	38.5	30.0	0.6	0.9
Worst Performing Sector (weekly): Energy	-3.8%	-2.4%	10.1%	13.3	11.0	3.1	3.9

Source: Factset. Data as of 05/24/2024

Bond/Commodity/Currency Recap			
Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	-0.3%	1.6%	-1.2%
West Texas Intermediate (WTI) Oil: $77.68	-4.9%	-7.0%	8.1%
Spot Gold: $2,334.00	-3.3%	2.1%	13.1%
U.S. Dollar Index: 104.72	0.3%	-1.4%	3.3%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.95%	12 bps chg	-9 bps chg	70 bps chg
10-year U.S. Treasury Yield: 4.46%	4 bps chg	-22 bps chg	58 bps chg

Source: Factset. Data as of 05/24/2024. bps = basis points

YTD Total Returns by S&P 500 Sector



Source: S&P Global, Factset. Data as of 05/24/2024

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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.

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.

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.

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.

The **ISM Services PMI** (formerly the Non-Manufacturing NMI) is compiled and issued by the Institute of Supply Management (ISM) based on survey data. The ISM services report contains the economic activity of more than 15 industries, measuring employment, prices, and inventory levels; above 50 indicating growth, while below 50 indicating contraction.

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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