Ameriprise Financial

Weekly Market Perspectives

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"The Fed remains on pace to cut rates this year, employment in the U.S. is softening but remains strong, and Big Tech (the main driver of S&P 500 profit growth in 2024) continues to drive forward on all cylinders."

Even A Hollywood Director Couldn't Have Scripted Better Developments for Investors Last Week

Last week's calendar was full of market-moving events including a Federal Reserve meeting, fresh updates on employment trends in the U.S., and a couple of key profit reports out of Big Tech companies Amazon and Apple. With the S&P 500 Index falling 4.2% in April and struggling through its first monthly loss since October, investors were on edge entering last week. Elevated stock valuations, sticky inflation, and mixed economic data have recently pushed expectations down for the number of Fed rate cuts for this year. Though not quite a make-it or break-it week for stocks (e.g., the S&P 500 is higher by +18.5% over the last six months), last week's barrage of events and releases certainly had the potential to accelerate the building negativity in stocks as of late.

However, the week couldn't have gone better for investors, even if a Hollywood director had scripted it. While investors were bracing for Fed messaging that would take rate cuts off the table for this year, Fed Chair Powell remained confident inflation would ebb lower over time, and it was unlikely policymakers would need to "raise" its fed funds target rate further. In addition, the Bureau of Labor Statistics on Friday delivered a *Goldilocks* April nonfarm payrolls report showing U.S. job growth last month that was "not too hot", "not too cold", "but just right" to keep the soft-landing narrative alive. And on the earnings front last week, Amazon and Apple delivered mostly as-expected results and outlooks. Amazon showed strength in cloud computing, further pressing the positive outlook for profit growth in Artificial Intelligence this year. At the same time, Apple announced a staggering $110 billion stock buyback (the largest in history), which helped the iPhone maker record its best day since November 2022 on Friday.

Bottom line: The Fed remains on pace to cut rates this year, employment in the U.S. is softening but remains strong, and Big Tech (the main driver of S&P 500 profit growth in 2024) continues to drive forward on all cylinders. In our view, investors couldn't have asked for better developments last week. And to throw a little more sunshine on how the week went, 2-year and 10-year U.S. Treasury yields fell sharply as bond prices rallied. Along with building uncertainty regarding Fed policy and rising geopolitical tensions in the Middle East, higher bond yields in April challenged stock prices last month. However, with the Fed continuing to acknowledge that their next move is likely a rate cut, yields headed lower last week, giving stocks some needed breathing room to move higher.

As a result, the S&P 500 Index logged its second consecutive week of gains, rising +0.6% last week. The NASDAQ Composite jumped +1.4%, while the Dow Jones Industrials Average and Russell 2000 Index gained +1.1% and +1.7%, respectively. Bond proxy sectors such as Utilities and Real Estate outperformed the S&P 500, as did Information Technology and Consumer Discretionary.

Gold finished the week lower by 1.6%, while West Texas Intermediate (WTI) crude fell 8.6%, for its worst weekly performance since February. With geopolitical tensions in the Middle East recently moving to the backburner from a market perspective and growth trends in the U.S. showing signals of slowing, crude has fallen nearly 10% from its early April highs.

Fed leaves funds target rate unchanged

Notably, with the Fed leaving its fed funds target rate unchanged at 5.25% to 5.50% for the sixth consecutive meeting and signaling it's unlikely the committee will need to raise rates further to tamp down inflation, we see investors growing less anxious about incoming data and its impact on rate policy – at least over the coming weeks. In April, U.S. nonfarm payrolls rose by +175,000, below the +235,000 jobs expected and far below the +315,000 jobs created in March. In addition, job growth in March and February was revised lower by 22,000 jobs in total, while the unemployment rate in April bumped up to 3.9% from 3.8% in March. Importantly, annual average hourly earnings (a measure of wage inflation) grew at +3.9% last month, its lowest level since May 2021. Combined with job openings in March falling to their lowest levels since March 2021, the labor market appears to be cooling, which is exactly what Fed officials want to see to help drive inflation lower.

Helping add further color to a cooling economy are ISM manufacturing and services updates that showed each unexpectedly falling into contraction in April. For the services component (which has been a strong driver of keeping inflation elevated in the U.S.), the measure recorded its first sub-50 reading, marking contraction in activity, for the first time since December 2022. While other measures of services activity last week continued to point to a growing and expansionary environment, building sets of signals in the U.S. (including consumer confidence) are beginning to paint a picture of cooling activity and an economy on a path toward normalization.

Outlook for stocks

So, what's the outlook for stocks from here? From a corporate earnings and economic growth perspective, we believe the broader S&P 500 is not overpriced at the moment, but with a few caveats. We see U.S. economic growth increasing by +2.2% in 2024. In addition, analysts forecast S&P 500 earnings to grow by roughly +11.0% year-over-year. At roughly 20.5x this year's earnings, the S&P 500 certainly isn't cheap but could support its valuation as long as the U.S. economy is growing and corporate profits are positive. But here's the caveat. In our view, we see economic growth decelerating in the back half of the year, and at the same time, analysts see profit growth accelerating. Outside of improved year-over-year comparisons in the back half, a lot of this year's profit growth is expected to come later in the year from a broader set of industries. If Big Tech earnings continue to drive the profit bus for the S&P 500 through all of 2024 (like they are currently), this mismatch in economic and profit expectations may be overlooked by investors. However, should profits disappoint across mega-cap tech stocks later this year or a broader profit recovery fails to materialize, then stocks could see more headwinds later in the year.

In addition, if fundamental conditions remain constructive and the next move from the Fed is a rate cut (even if it's just one and done in 2024), government bond yields should ebb lower as the year progresses, possibly providing additional support for stock prices. Obviously, areas of Technology are expensive today. However, profit growth in these benchmark heavyweights appears secular and visible over the coming quarters, while the rest of the market isn't that expensive based on profit expectations, in our view.

Bottom line: We continue to see a path higher for stock prices as long as fundamental conditions remain stable and profit growth remains on a positive trend. That said, elevated interest rates and sticky inflation, along with the Fed holding monetary policy at restrictive levels for longer than most expected at the start of the year, introduce some added risks to asset prices at current levels. As has been our position since the beginning of the year, a 5,200 to 5,400 level by year-end in the S&P 500 remains achievable if macroeconomic conditions unfold as we expect. To help insulate risks if those conditions unfold less favorably, a portfolio focused on high-quality assets, a strategy for locking in higher yields, and a diversified approach could help hedge against the unexpected.

The week ahead

This week, the Q1 earnings parade begins to slow, with 56 S&P 500 companies scheduled to report. With 80% of S&P 500 first quarter reports now complete, blended earnings per share (EPS) growth is higher by an impressive +5.0% year-over-year on revenue growth of +4.1%. Notably, since the end of March, Q2 S&P 500 profit estimates have risen modestly, given the generally positive outlooks and tones from corporate America in the current earnings season.

On the economic front, investors will receive a well-deserved reprieve after last week's head-spinning, market-moving releases with a rather quiet calendar this week. March consumer credit, initial weekly jobless claims, and a preliminary look at May Michigan Sentiment line the week.

Stock Market Recap

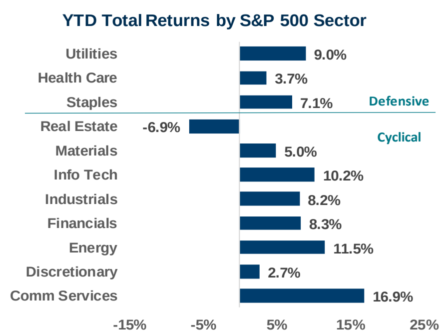
Benchmark	Total Returns			LTM PE		Yield %	
	Weekly	MTD	YTD	Current	5-Year Median	Current	5-Year Median
S&P 500 Index: 5,128	0.6%	1.8%	8.0%	25.3	21.9	1.4	1.6
Dow Jones Industrial Average: 38,676	1.1%	2.3%	3.2%	22.9	19.8	1.8	2.0
Russell 2000 Index: 5,059	1.7%	3.1%	0.9%	45.8	37.5	1.3	1.3
NASDAQ Composite: 16,156	1.4%	3.2%	7.9%	38.5	34.9	0.7	0.8
Best Performing Sector (weekly): Utilities	3.4%	2.6%	9.0%	20.3	21.4	3.2	3.2
Worst Performing Sector (weekly): Energy	-3.3%	-1.1%	11.5%	12.2	11.0	3.2	3.9

Source: Factset. Data as of 05/03/2024

Bond/Commodity/Currency Recap

Benchmark	Total Returns		
	Weekly	MTD	YTD
Bloomberg U.S. Universal	1.1%	1.2%	-1.6%
West Texas Intermediate (WTI) Oil: $78.06	-8.6%	-4.7%	8.6%
Spot Gold: $2,301.81	-1.6%	0.7%	11.6%
U.S. Dollar Index: 105.03	-0.9%	-1.1%	3.6%
Government Bond Yields	Yield Chg		
	Weekly	MTD	YTD
2-year U.S. Treasury Yield: 4.81%	-16 bps chg	-23 bps chg	56 bps chg
10-year U.S. Treasury Yield: 4.50%	-17 bps chg	-18 bps chg	62 bps chg

Source: Factset. Data as of 05/03/2024. bps = basis points



Source: S&P Global, Factset. Data as of 05/03/2024

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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.

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.

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 **Institute for Supply Management** (**ISM**) manufacturing index is a national manufacturing index based on a survey of purchasing executives at roughly 300 industrial companies. It is an index of the prevailing direction of economic trends in the manufacturing and service sectors.

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.

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