WEEKLY MARKET RECAP | March 11, 2024

Week in Review

Equity Markets:

The S&P 500 finished the week fractionally lower at -0.23% as recent winners dragged the market lower. The Russell 1000 Growth finished the week down 1.27% while its value counterpart finished the week in the green by 1.12%[1]. Small caps also reversed the recent trend with the Russell 2000 finishing the week up 0.34%.

99% of S&P 500 companies have reported earnings. 73% have reported a positive earnings surprise and 64% have beaten revenue expectations. Focus has shifted to first quarter earnings which will start in a few weeks. Analysts are expecting 3.4% earnings growth from the quarter which is slightly down from the 5.6% growth expected at the beginning of the year[2].

Fixed Income Markets:

Yields pulled back last week following mixed economic data and Chairman Powell's testimony. The 10-year Treasury yield fell 0.1% and closed the week at 4.09%. The yield curve slightly steepened with the 2-year Treasury yield falling 0.06% to finish the week at 4.48%. The yield curve has slowly steepened to -0.39% since the -0.16% level in January.

Chairman Powell's testimony in front of Congress reminded investors that policymakers are unwilling to move rates unless the data continues to justify it. He did acknowledge that the plan is to cut interest rates at some point this year but was cautious about any indication of timing. Inflation data has improved since peak levels in 2022 but policymakers will need to see a continued trend toward their target of 2% before easing monetary policy.

Economic:

The labor market continued to hold its ground in February. The economy created 275,000 jobs, well above the 200,000 expected by most economists. The unemployment rate saw a slight tick up to 3.9% but remains low relative to history. The JOLTS report showed that the labor market is easing though. Workers quitting their jobs dropped to a three-year low and 1.45 jobs for every unemployed person. The ISM Services PMI softened in February and fell to 52.6. Despite the lower reading, the index remained above 50 which indicates the sector is in expansion territory.

Looking Ahead

Equity Markets:

Market leaders took a break last week and played a large part in the market's negative performance. As we look towards the start of the next earnings season, we believe in looking at the fundamentals and valuations moving forward. The S&P 500 is trading at 21.2x forward four quarter earning[3]. Also, companies have continued to report negative outlooks for the upcoming quarter. There has been a total of 81 S&P 500 companies with negative preannouncements[3]. This could be a leading indicator for softening business fundamentals going forward. The forward multiple on the S&P 500 is also a factor we believe could lead to a weaker market in the near to intermediate term.

Over the past year, the S&P 500 has rallied over 30%. We believe that investors should not be drawn to chase rallies and remain committed to their long-term allocations that were thoughtfully developed to reach their financial goals. We believe the market is in a sensitive spot and investors need to approach the market with long-term optimism but short-term caution. By no means do we believe these factors will lead to a market breakdown, but could lead to a return of volatility and smaller pullbacks until valuations and fundamentals catch up to the price.

Fixed Income Market

We expect volatility in the bond market to be muted in the near term due to the market's recalibrated expectations that align more closely with policymakers. We think the 10-year yield will stay range-bound in the 4-4.5% range until we see a significant change in the economic environment and/or shift in expected monetary action. The Fed has indicated the intent to lower rates at some point this year so we could see rates stay in the current range until later this year. Once this occurs, barring an economic conditions breakdown, we anticipate rates to move slowly down accompanied by short bouts of volatility around the policy meetings.

Our view remains positive on the bond market for long-term-oriented investors. 4% yields are a suitable multi-year return level for investors who seek capital preservation and current income. Also, if equity market weakness were to arrive, current levels offer the potential for portfolio protection through the historical negative correlation benefits of high-quality treasury bonds.

Economic:

This week will host two important inflation reports ahead of the Fed's next meeting later this month. The Consumer Price Index will be released on Tuesday; followed by the Producer Price Index on Thursday. Other notable reports will be the Retail Sales Report on Thursday followed by Export and Import Prices and the preliminary reading of the University of Michigan Consumer Sentiment Index on Friday.

**** *See Important Disclosures on the following page*

Sources:

1)JP Morgan Asset Management
https://am.jpmorgan.com/content/dam/jpm-am-aem/americas/us/en/insights/market-insights/wmr/weekly_market_recap.pdf

2) Factset Research Inc
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3) LSEG I/B/E/S
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