Week in Review

Equity Markets:

The S&P 500 posted a modest gain of 0.4% for the week but closed the week at a new high of 5,254. The S&P finished the first quarter up 10.2%, its strongest first quarter performance since 2019[1]. The style gap narrowed as the quarter went along. The Russell 1000 Growth finished the quarter up 11.41% while its value counterpart closed out the first quarter up 8.99%[2]. A late-quarter reversal helped push the value index up and close the gap.

The next earnings season will start to gain steam next week with the start of the major banks. Current expectations have the S&P 500 growing earnings at an annual of pace of 3.6%[3]. This is a small downward revision from the 5.8% growth expected on January 1.

Fixed Income Markets:

The fixed-income markets were relatively quiet last week and saw little movement. The 10-year Treasury yield fell 2 basis points to 4.2% from the previous week's close of 4.22%. The short-end of the curve finished the week flat; the 2-year Treasury closed the week at 4.59%.

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 holiday-shortened week had a low volume of economic reports but did not lack in importance. The final GDP estimate was reported on Thursday which was surprisingly adjusted upward to 3.4% from the previous estimate of 3.2%. Despite the restrictive stance of policymakers, the economy continued to show resilience and notched its sixth consecutive quarter with annual growth exceeding 2%. The equity markets were closed on Friday but the Fed's preferred inflation gauge, The Personal Consumption Expenditures Index (PCE), was released. The results came in line with expectations and rose 0.3% in February and 2.5% on an annual basis. The Core reading, which excludes food and energy, came in at expectations increasing 0.3% in February and 2.8% on an annual basis. The consumer once again proved its resilience in February. Consumer spending rose 0.8% for the month, well above the 0.5% estimate.

Looking Ahead

Equity Markets:

The equity markets have experienced a strong rally from the recent lows in October. Much of this was due to a sentiment shift in terms of monetary policy outlook and a resilient economy. The market has done little to improve its earnings outlook though. This has resulted in the forward price to earnings of the S&P 500 expanding to 21.2x[4]. We believe this level is elevated but not yet at extremes. The market can continue at this pace for quite some time but from a multi-year perspective, investors should be diligent.

The current environment lends itself to reflection and review. The market has rallied 32% over the past year and the majority of that return has been concentrated in a sub-set of the market. At this point, investors should remain disciplined and convicted to their strategic allocations. Higher valuations do not necessitate a material breakdown but it does increase the probability of volatility and risks. Investors should keep this in mind when reviewing their allocations.

Fixed Income Market

Last week was uneventful for the fixed-income markets. We do not anticipate this to continue as we will begin to see economic data that will be closely watched by policymakers which includes the labor market reports and more inflation data over the next couple of weeks. We see potential for upward pressure on rates as the market navigates closer to current Federal Reserve projections. Investors should anticipate a return of volatility following a multi-month period where market expectations deviated significantly from those of policymakers.

Now that expectations from both parties are more in line, the impact of new data has the potential to move the markets. We see the 10-year Treasury yield staying in the 4-4.5% range over the next few months with the potential for short moves above the 4.5% level if strong labor market reports continue and/or inflation data comes in above expectations. But, our long-term outlook for bonds remains positive. Investors should take a multi-year view of the market despite any short-term volatility. The current level of rates provides investors with a suitable alternative to risk assets and also has the potential for negative correlation if equity market weakness lies ahead.

Economic:

The first week of the second quarter brings a slew of employment reports on the economic front. The Job Openings and Labor Turnover Survey (JOLTS) will be released on Tuesday, the ADP Private Payrolls report on Wednesday, Thursday's weekly unemployment claims, and to end the week will be the Non-Farm Payrolls on Friday. Uncertainty has increased over the past month concerning the path of the Federal Reserve's future policy actions. The labor reports this week have the potential to move the market in the short run. Other notable reports include the ISM Manufacturing and Services PMI. The Consumer Credit report from the Federal Reserve will be released on Friday.

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

Sources:

1)JH Investments, Inc.
https://www.jhinvestments.com/weekly-market-recap#market-moving-news

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

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4) L/S/E/G IBES
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