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WEEKLY MARKET RECAP | April 29, 2024

Week in Review

Equity Markets:

The S&P 500 reversed the recent trend and finished the week positive for the first time in three weeks. The index finished up 2.68% behind strong tech earnings and a tech rally late in the week. The NASDAQ finished the week up 4.23%. The spread between large-cap growth and large-cap value remains but is narrowing. The Russell 1000 Growth is up 8.43% year-to-date while its value peer is up 5.29%[1].

Earnings season is now in full swing. 46% of S&P 500 Companies have reported thus far. 77% have exceeded earnings expectations and 60% have beaten revenue estimates[2]. The blended earnings growth rate for the S&P sits at 3.5% which is a slight improvement from the 3.4% that was expected heading into the quarter. Some analysts had concerns about margin compression, but companies continue to show their resilience and the net profit margin for the S&P has expanded slightly in the current quarter to 11.5% from the previous' 11.2%[2].

Fixed Income Markets:

Yields continued to climb for the fourth week in a row. The 10-year Treasury Yield reached 4.73% midweek, its highest level since the October 2023 highs, but retreated at the end of the week to close the week at 4.67%. The 2-year Treasury briefly topped 5% before finishing the week at 4.96%. The yield curve slightly steepened following the stick inflation report. The 2's/10's spread finished the week at -.29%, 6 basis points tighter than the previous week's close.

The Fed Fund's Futures Market has drastically shifted its expectations for the path of rates this year. Early in the year, the markets had priced in six rate cuts for the full year. As of Friday, that number has been cut to two with the first cut not happening until September[3].

Economic:

The most recent inflation report showed that we are still well above the Fed's 2% target. The Personal Consumption Expenditures Price Index rose 2.7% year-over-year, above the 2.6% estimate. The Core reading, which excludes food and energy, rose 2.8% from a year ago, also slightly above the 2.7% that was expected. The first GDP estimate for Q1 2024 showed that growth slowed from previous quarters. GDP grew at an annualized rate of 1.6%. While still positive, it came in well below the 3.4% reading from last quarter. The University of Michigan Consumer Sentiment Index was revised lower 77.2 for the month of April. An uptick in inflationary concerns, the upcoming presidential election, and the global geopolitical environment were the major contributors to the lower revision.

Looking Ahead

Equity Markets:

The recent sell-off and better-than-expected earnings season have lowered valuations some. The S&P 500 is trading at 20x full-year earnings[4]. While this is still above historical averages, our concerns of extreme overvaluation have been relieved. Recent economic and inflation reports are increasing the odds of the "higher for longer" scenario when it comes to monetary policy. A higher rate environment can pose challenges to equity markets, especially in one that has put a high price tag on future earnings. The good news is that earnings continue to surprise to the upside and it appears companies continue to navigate the challenging environment without incurring significant negative impacts to their bottom line.

Investors should still acknowledge the potential for weakness going forward. For a sustained move higher, we believe we need a continued broadening out of market participation, and not just a handful of the largest companies. We believe investors should have a systematic rebalancing plan that "adds low and trims high" to capture a breadth expansion when it occurs. We believe investors should also review their strategic allocations near market highs. This is a good time to ensure your allocations align with your desired risk and long-term goals.

Fixed Income Market

The recent sell-off in bonds likely has investors' fears returning of a repeat of 2022. At the beginning of the year, the 10-year Treasury Yield was 3.88%. In our opinion, the markets were overly optimistic with rate expectations for 2024, which put the bond market in a sensitive position. Inflation is stickier than most would have expected, but we still believe policymakers are more apt to sit tight than raise rates again. This is why we believe peak rates are likely behind us. This does not mean short-term volatility could push the 10-year back up to 5%, but we do believe it would be short-lived.

Our long-term outlook remains positive for fixed-income investors. The "income" component has returned to fixed income and for the first time in decades, investors can see an attractive total return in today's environment.

Economic:

The highlight event for the week will be the Federal Reserve's two-day policy meeting, where markets are anticipating that rates will go unchanged. This week will also have multiple reports that could impact the markets. The labor market will see JOLTS and ADP Employment Report released on Wednesday and the Non-Farm Payroll Report on Friday. The ISM will release its Manufacturing and Services PMI which should provide insight into economic activity following a disappointing GDP reading last week.

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

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Sources:

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

2) FactSet Research, Inc.
https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_042624A.pdf

3) CME Group
https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

4) LSEG I/B/E/S
https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

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