Week in Review

Equity Markets:

The S&P 500 slowed in the first trading week of the new quarter. The index ended the week down 0.93% following a broad sell-off on Thursday. The Russell 1000 Growth fared better than its Value counterpart, ending the week only down 0.67% and 1.33% respectively[1]. A rally in commodities, specifically oil, which saw WTI Oil approach $90 a barrel for the first time since October last year.

Earnings season is just getting underway and we will see reports go into full swing at the end of this week, starting with some of the major banks. Only 20 companies have reported earnings thus far, and 90% have exceeded earnings expectations[2]. The revenue numbers have not come in as strong as expected with only 45% beating earnings estimates[2]. Earnings growth for the first quarter are expected to be 3.2% which is below the 5.7% that was expected on January 1[3]

Fixed Income Markets:

The fixed-income markets sold off last week as we saw yields jump to levels last seen in October. The hotter-than-expected jobs reports potential impacts on future Fed policy were the major contributors to the sell off. The 10-year Treasury yield jumped 0.19% for the week and closing with a yield of 4.39%. The yield curve saw a slight steepening as the long end of the curve experienced a larger sell-off. The 2-year Treasury yield finished the week at 4.7% closing the 10's/2's inversion by 5 basis points.

The markets have quickly reversed their expectations for the number of rate cuts this year. Following the labor market reports last week, the Fed Fund's Futures Market priced in a 51.2% probability of the Fed holdings rates at the current range at the June FOMC meeting, the probability of this happening was only 26% a month ago[4].

Economic:

Friday's Non-Farm Payrolls Report showed that the restrictive monetary policy by the Fed has done little to slow the labor market. In March, the economy created 303,000 jobs, well above the 205,000 expected by economists. The unemployment rate dropped to 3.8%, slightly down from the 3.9% rate in February. The ADP Private Payroll Report also exceeded expectations. The report showed that the private sector created 184,000 which was slightly better than the 155,000 expected. Job openings in February totaled 8.76 million a slight tick up from the 8.75 million in January. The ISM Manufacturing PMI rose to 50.3 which indicates the manufacturing sector is back to expansion, albeit by a small margin, for the first time since September 2022[4].

Looking Ahead

Equity Markets:

We believe the market selloff last Thursday showed the fragility of the current environment. The S&P 500 is trading at 20.5x forward four quarter earnings in an environment where earnings expectations continue to be downgraded[2]. We believe that the market is vulnerable to jumps in volatility that can cause steep short-term selloffs and investors should be prepared for this.

Our stance on the equity market remains the same. We do not see it prudent for investors to take excessive risks and target allocations should be paid attention to closely. During times of market highs, we believe it is a good chance for investors to revaluate their current positioning and long-term objectives. Doing so can help identify potential overexposures or unnecessary risks being taken and being able to identify these before market weakness occurs.

Fixed Income Market

The economy and labor market resilience have surprised the majority of the markets. The historic rate increases by the Fed have had little impact on the consumption and a key inflation driver, labor costs. Market expectations have come back in line with what policymakers have been indicating for months. We believed the expectation for 6+ rate cuts this year was aggressive thinking, but we to are also surprised by the continued labor market strength. We still believe that further rate hikes are behind us, but the "higher for longer" narrative is likely to become the reality in our eyes.

Policymakers can keep a restrictive stance by staying put, and this should allow them to take a more cautious approach to rate cuts. For this reason, we see a sideways market for the intermediate term. We believe the 10-yr yield will move in the 4.25-4.5% range with the potential to overshoot the 4.5% level briefly. Our outlook remains positive for fixed income investors. The current rate environment is having brought the 'income' back into fixed-income. But, investors should have expectations recalibrated. Following a multi-decade bond market bull rally where the focus has been on capital appreciation; we believe the current market will look more like the traditional bond markets of decades ago.

Economic:

Following the hot labor market reports last week, the markets will get a clearer picture of the inflationary environment this week. The CPI report will be released on Wednesday which economists are expected to come in at 3.5% on an annual basis[6]. The PPI, which market participants see as a leading indicator for future inflation, will be released on Thursday. To close the week, the first look at the consumer for the month will happen with the Preliminary University of Michigan Consumer Sentiment Index.

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

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) LSEG I/B/E/S
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4) CME
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5) Reuters
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6) MarketWatch
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