Week in Review

Equity Markets:

The S&P 500 extended its winning streak to two weeks following strong earnings reports and a moderating labor market. The S&P 500 finished the week up 0.56%. The style trend swung back to Large-Cap Growth last week. The Russell 1000 Growth finished the week up 1.02% while its value counterpart was essentially flat for the week with a 0.2% return[1].

We have made it through the bulk of earnings season with 80% of S&P 500 companies having already reported. So far, 77% have exceeded earnings estimates and 61% have reported positive revenue surprises[2]. Earnings beats are in line with historical trends but we have also seen improvement in the earnings growth rate. The blended earnings growth rate at the end of the week stood at 5%. This is an improvement on the 3.4% that was expected at the beginning of the quarter and would mark the highest growth rate since Q2 2022[2].

Fixed Income Markets:

Policymakers once again held rates at the current range of 5.25-5.5%. The last rate hike was in July 2023 and the economy is approaching a full year at this elevated level of rates. The bond market had a muted reaction, mostly due to the decision being priced into the market and no new surprises from Chairman Powell's press conference. Fed officials acknowledged a stall in the progress towards the 2% target but also believe that further hikes will not be necessary.

The 10-year Treasury yield was little changed following the monetary policy decision, but yields moved down swiftly following the non-farm payrolls miss. The 10-year yield finished the week down 0.17% lower at 4.5%. The short end of the curve sold off as well but to a lesser extent. The 2-year Treasury yield fell 0.15% and ended the week at 4.81%.

Economic:

The Job Openings and Labor Turnover Survey (JOLTS) report showed that job openings fell to a three-year low last month. There were 8.488 million job openings in March, down from the upwardly revised 8.813 million in February. There were 1.32 job openings for every unemployed person; a welcomed sign that the labor market is gradually cooling. The non-farm payrolls report missed to the downside last week. Payrolls increased by 175,000 in April, well below the 243,000 expected by economists. Wage growth increased 3.9% over the past 12 months. This was the first reading below 4% since June 2021 which is an indicator that inflationary pressures may be subsiding. The ISM Manufacturing PMI fell back into contraction with a reading of 49.2 in April after only one month that showed the manufacturing sector was growing. The Services PMI surprisingly fell to 49.4 which marked the first contraction reading since December 2022.

Looking Ahead

Equity Markets:

Earnings results have continued to surprise to the upside. 2023 was a year analysts had a pessimistic outlook for earnings but companies showed resilience and exceeded expectations quarter after quarter. So far, this year is no different. Analysts pushed earnings weakness out further but corporate profitability has remained consistent. Earnings results have improved by 40% from the expected number to start the quarter[3]. But, the revenue beat rate remains under the long-term average of 62% and the previous four-quarter average of 65%[3]. A major contributor, and what we believe to be a lynchpin, has been profit margin expansion. Following the earnings releases last week the S&P 500 expanded its net profit margin to 11.7% from the previous week's 11.5%[2]. With fears of a tightening consumer, strong margins can help companies withstand potential lower revenues on going forward.

Going forward we expect to see volatility reemerge in the equity market as the election approaches and early signs of softening economic conditions. Economic and labor market reports last week did not show a weak economy but one that may be cooling. Investors should consider evaluating their current exposures as the market pushes higher near its all-time highs. During times of good market performance provide an opportunity to evaluate your portfolio and how it aligns with your long-term investment objectives. A thoughtfully developed strategic allocation that aligns with your desired level of risk is the foundation for maximizing the probability of meeting your investment objectives.

Fixed Income Market

The Federal Reserve held policy rates steady at their meeting last week. Policymakers have thus far navigated the challenging environment without pushing the economy into a recession. Going into 2024 the market was anticipating a slew of rate cuts but following a string of stubborn inflation reports the market quickly shifted its outlook and recently, whispers of a potential rate hike have started. Chairman Powell acknowledged the recent inflation reports but stated that another hike is not currently necessary. We have had a positive outlook for the bond market for many months. We believe peak rates are behind us, and fixed-income investors have attractive total return potential at the current rate level.

Economic:

Following a week that was packed with reports, this week will be light. On Tuesday the consumer credit report will be released. The weekly unemployment claims from the labor department will be released on Thursday. Friday, The University of Michigan will release its preliminary Index of Consumer Sentiment and the federal budget will be released by the Treasury Department.

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

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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_050324.pdf

3) LSEG I/B/E/S
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