D|A|DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 4/15/24: Hot Inflation Drives Hot Interest Rates

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,123.41	-1.56%	-2.49%	7.41%	24.68%	5,254.35	2.6%
Dow Jones Industrial Average	37,983.24	-2.37%	-4.58%	0.78%	14.15%	39,807.37	4.8%
NASDAQ Composite	16,175.09	-0.45%	-1.25%	7.75%	32.35%	16,442.20	1.7%
Russell 2000	2,003.17	-2.92%	-5.71%	-1.18%	11.13%	2,442.74	21.9%
MSCI EAFE (USD)	2,289.76	-1.19%	-2.43%	2.40%	9.42%	2,398.71	4.8%
MSCI Emerging Markets (USD)	1,041.70	-0.38%	0.13%	1.75%	5.19%	1,444.93	38.7%
Bloomberg Commodity Index	102.93	0.03%	3.45%	4.34%	-2.45%	237.95	131.2%
Barclays U.S. Aggregate Bond	88.76	-0.74%	-1.92%	-3.21%	-2.55%	112.07	26.3%

Source: FactSet

Following hotter-than-expected inflation data (Consumer Price Index, or CPI), U.S. interest rates surged. Consumer inflation (CPI, as reported by the Bureau of Labor Statistics, BLS) increased +3.5% year-over-year (Y/Y) in March, modestly above the +3.4% FactSet consensus estimate (from economists) and, more importantly, up from +3.2% in February and +3.1% in January. Within CPI, inflation on goods was negative Y/Y (-0.7%) mostly due to lower prices for both new and used cars. That positive trend was more than offset by inflation on services, which surged +5.4%. This included higher prices for primary residence, rent, hospital visits, and vehicle insurance. CPI also includes food prices (+2.2% Y/Y) and energy costs (+2.1%), both of which increased modestly, but underlying the data, food-away-from-home (restaurants) inflation spiked +4.2% Y/Y and electricity increased +5.0%. The key inflation subset, core CPI, increased +3.8% Y/Y in March, compared to +3.8% in February and was +3.8% or +3.9% for four consecutive months. Core CPI is watched closely because food and energy are less impacted by changes in interest rates, so excluding those groups allows us to monitor categories that can be more impacted by rates. Following the CPI report, U.S. Treasury yields moved higher to the highest levels since November last year. The U.S. 2-year Treasury yield (a proxy for short-term interest rates) was 4.94% as of 4/15/24, compared to 4.62% at the end of March, and the U.S. 10-year Treasury yield (a proxy for long-term rates) was 4.64% and 4.20%, respectively, on those same dates. We attribute the spike in rates both to solid U.S. economic trends in the first quarter, and a view that higher-than-expected inflation supports interest rates that remain "higher for longer," and alters the timing of when the Federal Reserve Bank (Fed) will begin to implement a lower interest rate policy. The Fed manages very short-term, overnight bank lending fed funds interest rates by setting a target range (currently sits at 5.25% to 5.50%). The Fed will bring that range to a lower, more neutral, level when it believes that core inflation is on trend to return to +2.0%. We expect no change to the fed funds target at the next Fed policy meeting on 5/1/24, and perhaps no change at the following meeting on 6/12/24. We could wait until the third quarter for the first Fed rate cut (meeting on 7/31/24).

The S&P 500 price level decreased -1.6% last week and was down -2.5% in April, as of 4/12/24. This was both the largest weekly decline in 2024 year-to-date (YTD) and the largest pullback (peak-to-trough) of the year. The week served as a reminder that market volatility remains a risk, especially if interest rate worries lead to concern about equity market valuation (higher rates can lead to a lower present value for stocks) and/or U.S. economic growth (higher rates limit business investment, as well as raise borrowing costs). All 11 S&P 500 GICS sectors (Global Industry Classification Standards from MSCI) were down on the week, but relatively better gains came from the technology-centric "growth" sectors. Investors continue to flock toward the technology stocks during uncertainty as technology investment has remained robust throughout the post-pandemic business cycle.

Earnings season, foreign wars, and Tax Day. First quarter (1Q24) earnings reports kicked off last week, with an initial group of banks and capital markets companies reporting mixed data. The 1Q24 blended earnings growth estimate (weighted average of all S&P 500 constituents) has slipped to +1.4% (as of 4/15/24) from +4.1% on 3/31/24. The S&P 500 has turned negative on the day (4/15/24) as Middle East tension remains high following Iran's weekend attack on Israel. Oil prices have remained stable near $85 per barrel (West Texas Intermediate). April 15th is U.S. Tax Day.

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