The Weekly Market Update – 5/6/24: April Showers Give Way to Early May Gains

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,127.79	0.55%	-2.41%	7.50%	22.98%	5,254.35	2.5%
Dow Jones Industrial Average	38,675.68	1.14%	-2.84%	2.62%	13.42%	39,807.37	2.9%
NASDAQ Composite	16,156.33	1.43%	-1.36%	7.63%	32.14%	16,442.20	1.8%
Russell 2000	2,035.72	1.68%	-4.18%	0.43%	15.08%	2,442.74	20.0%
MSCI EAFE (USD)	2,309.49	1.50%	-1.59%	3.28%	7.73%	2,398.71	3.9%
MSCI Emerging Markets (USD)	1,061.45	1.91%	2.02%	3.68%	8.64%	1,444.93	36.1%
Bloomberg Commodity Index	101.34	-1.53%	1.86%	2.73%	-2.85%	237.95	134.8%
Barclays U.S. Aggregate Bond	89.03	1.05%	-1.62%	-2.91%	-2.67%	112.07	25.9%

Source: FactSet

U.S. equities moved lower in April, including the widely followed S&P 500 index posting its first down calendar month since October 2023. But from late April through the first few days of May, stocks mounted a "mini rally" as U.S. interest rates receded and corporate earnings results were reported ahead of expectations. The S&P 500 declined -4.1% (price return, not including dividends) in April, giving back some, but not all, of the first quarter gains (including the April decline, through 4/30/24, the S&P 500 year-to-date increase was +5.6%). On 4/19/24, the index closed at 4,967, its lowest closing price since mid-February, and was down -5.5% from the 3/31/24 all-time closing high of 5,254. Over the subsequent two weeks, through 5/3/24, the S&P 500 increased +3.2% to 5,128, taking the index back to a level that is only 2.5% below the all-time high. The recent gains and improved investor sentiment can be attributed, in our view, to U.S. Treasury yields retreating after a steady move higher in April. The U.S. 2-year Treasury yield (we view as a proxy for short-term interest rates) was 4.82% on 5/3/24, down from a recent high level of 5.03%. At the same time, the U.S. 10-year Treasury yield (a proxy for long-term interest rates) moved to 4.51% from 4.70%. Although interest rates remain elevated, especially when compared to levels at the end of 2023, the recent trend lower was cheered by investors as it embraced a view that the Federal Reserve Bank's (Fed) current overnight fed funds interest rate target range of 5.25% to 5.50% is sufficiently restrictive to address emerging inflation fears, and to ultimately lead to lower interest rate targets from the Fed later this year. At the same time, S&P 500 earnings reports for the March quarter have reflected growth above expectations, perhaps setting the stage for 2024 earnings estimates to move higher.

Another Fed pause calms markets, while jobs growth slows. The Fed concluded its third 2024 policy meeting on 5/1/24 (of eight scheduled) and held its fed funds interest rate target range at 5.25% to 5.50% for the 6th consecutive meeting since July 2023. While markets and investors have anticipated a policy shift to lower interest rate targets to begin in 2024 (with inflation pressures substantially below 2022 and 2023 high levels, the view is that Fed interest rate targets can be moved lower to a more "normal" level), the expectation has been pushed out to later in the year. Even with the Fed pause, however, market-traded interest rates declined (discussed above) as a 1Q24 uptick in consumer inflation (consumer price index, as reported by the Bureau of Labor Statistics, BLS) raised fears that the Fed would downplay rate cut hopes and possibly discuss raising rates. Fed Chair Jerome Powell communicated the Fed's view that while inflation improvement in recent months has been slower than expected, current targets are restrictive and hikes are unlikely. The next target change in interest rates is still likely to be lower. On 5/3/24, the BLS released April jobs data; nonfarm payrolls increased by +175 thousand (K), which was below the +240K consensus estimate (wage growth was below estimates as well). Slowing jobs and wage growth, if sustained, should contribute to inflation relief in future periods.

1Q24 earnings reports have trended above expectations. Through early Monday, 5/6/24, 405 of S&P 500 constituents had reported financial results for the March/April quarter. Year-over-year (Y/Y) earnings growth was +3.5%, and the blended estimate (combines reported and yet-to-be reported estimates) moved +5.2%. Just a little over two weeks ago, the blended estimate was +0.3%, but the move higher reflects reported results that came in higher than estimates. The consensus estimate for full-year 2024 earnings growth was +11.2% as of 5/6/24, suggesting that more work is needed to meet that expectation. However, the 1Q24 earnings upside is a positive trend.

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