



The Weekly Market Update – 5/13/24: Risk Back On?

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,222.68	1.85%	-0.60%	9.49%	25.26%	5,254.35	0.6%
Dow Jones Industrial Average	39,512.84	2.16%	-0.74%	4.84%	15.88%	39,807.37	0.7%
NASDAQ Composite	16,340.87	1.14%	-0.24%	8.86%	33.65%	16,442.20	0.6%
Russell 2000	2,059.78	1.18%	-3.05%	1.61%	16.44%	2,442.74	18.6%
MSCI EAFE (USD)	2,346.16	1.59%	-0.03%	4.92%	9.44%	2,398.71	2.2%
MSCI Emerging Markets (USD)	1,071.64	0.96%	3.00%	4.68%	9.68%	1,444.93	34.8%
Bloomberg Commodity Index	102.79	1.43%	3.31%	4.20%	-1.46%	237.95	131.5%
Barclays U.S. Aggregate Bond	89.08	0.06%	-1.56%	-2.86%	-2.61%	112.07	25.8%

Source: FactSet

The widely followed S&P 500 equity index rallied last week, moving to less than one percent from its all-time closing high on 3/31/24.

With an April pullback nearly erased, sentiment has flipped positive and investors look for a resumption of the first quarter (1Q24) rally, when the index gained +10.2% (price return, not including dividends). While the S&P 500 increased +1.9% last week (ended 5/10/24) and +5.2% over the past three weeks, the index is down -0.6% in 2Q-to-date with the quarter's halfway point set this week. We attributed 1Q24 equity market gains to upward revisions to economic growth estimates (Wall Street economists forecast U.S. gross domestic product, or GDP) as consumer spending data pointed to solid growth. But in late April, 1Q24 GDP growth was reported at +1.6%, below estimates, renewing the debate about a slowing economy. The upshot of slower growth is that it can relieve inflation pressure by limiting the tolerance for price increases. Despite the slower-than-expected, but still positive, 1Q24 GDP growth, S&P 500 earnings growth for the first quarter exceeded expectations. With 92% of S&P 500 earnings reports completed, 1Q24 earnings growth for the index was +3.7% year-over-year (Y/Y), and the FactSet consensus estimate (adding estimates for the remaining reports) has moved to +5.3%. The trend is above the +3.1% estimate that existed on 3/31/24. Slowing, but positive, GDP growth (a soft-landing economy), possibly facilitating lower inflation, while corporate earnings growth accelerates is a bullish scenario, in our view, that has been embraced by investors thus far in May. But still, we believe work remains to satisfy the bulls as May gains are concentrated in the largest companies once again, and in 2Q24, through 5/10/24, eight of eleven GICS sectors were lower.

The Equal Weight S&P 500 (EW S&P) has trailed the performance of the S&P 500 both in 2Q24 and 2024 YTD, evidence that the performance of the average stock has lagged the index.

In 2Q24, as of 5/10/24, the EW S&P declined -2.1% (price return) vs. the S&P 500's -0.6% decline, and YTD the EW S&P's gain of +5.1% trailed the S&P 500's +9.5% increase. This 440 basis points (bp) of underperformance for the EW S&P relative to the S&P 500 has added to 1,260 bp of underperformance last year (2023 price return of the EW S&P +11.6% vs. S&P 500 +24.2%). While not unprecedented, a sustained wide discrepancy is rare and broadening participation from more sectors and stocks is needed, in our view, to confirm a more bullish uptrend. Early May S&P 500 returns include improved participation (all 11 sectors higher) in a limited time period (just eight trading days), but only three sectors were positive in 2Q-to-date (a 6-week period): Utilities, Communication Services, and Consumer Staples. At a time when the large-company, technology-centric leaders trade at premium valuations and the average stock continues to lag in performance, we advocate for broad diversification in high-quality companies across sectors. Over time, we expect improved performance from EW S&P relative to the S&P 500, with outperformance from the average stock.

Inflation data deserves the spotlight this week as the April consumer price index (CPI) report is due on 5/15.

After steady Y/Y improvement in 2023 CPI trends stalled in early 2024, April CPI is estimated (FactSet consensus) to reflect an increase of +3.4% Y/Y (vs. +3.5% in March) and core CPI (excludes food and energy prices) is estimated at +3.6% (vs. +3.8% in March). CPI improvement is flat since December 2023 (12/23 CPI +3.4% and core CPI +3.9%) so investors are also watching the month-to-month (M/M) data to better evaluate the trend. If M/M prices increase by +0.3% or higher, inflation remains elevated; a +0.2% or lower reading would be a welcome sign.

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The S&P 500 Equal Weight Index is compiled by S&P Dow Jones. It is an equal-weight version of the widely used S&P 500. The index includes the same constituents as the capitalization-weighted S&P 500, but each company is allocated a fixed weight, or 0.2%, of the index total at each quarterly rebalance.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. GDP numbers are compiled by the Bureau of Economic Analysis (BEA), a division within the U.S. Department of Commerce. Quarterly GDP is reported as a percentage change from the prior quarter, annualized. The BEA also reports data as a year-over-year percentage change from the same period one year prior. The most recent GDP report can be found at www.bea.gov.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analyst estimates from firms that submit estimates to FactSet for a given financial metric.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

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The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

We define a "soft landing economy" as U.S. GDP growth that remains positive but below the 5-year average annual growth of 2.2% from 2015 to 2019 (pre pandemic).