



The Weekly Market Update – 6/3/24: PCE Inflation Confirms CPI Improvement

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,277.51	-0.51%	0.44%	10.64%	26.26%	5,321.41	0.8%
Dow Jones Industrial Average	38,686.32	-0.98%	-2.82%	2.64%	17.56%	40,003.59	3.4%
NASDAQ Composite	16,735.02	-1.10%	2.17%	11.48%	29.37%	17,019.88	1.7%
Russell 2000	2,070.13	0.02%	-2.56%	2.12%	18.32%	2,442.74	18.0%
MSCI EAFE (USD)	2,355.67	-0.14%	0.38%	5.34%	15.37%	2,398.71	1.8%
MSCI Emerging Markets (USD)	1,048.96	-3.14%	0.82%	2.46%	9.43%	1,444.93	37.7%
Bloomberg Commodity Index	102.99	-1.94%	3.52%	4.41%	5.13%	237.95	131.0%
Barclays U.S. Aggregate Bond	89.29	-0.03%	-1.33%	-2.63%	-1.12%	112.07	25.5%

Source: FactSet

The Federal Reserve Bank’s preferred inflation measure moved lower from the prior month, the first positive (lower) inflation surprise of 2024. Reported on the last of May, the April personal consumption expenditure (PCE) price index (PI), as reported by the Bureau of Economic Analysis (BEA), increased +2.7% year-over-year (Y/Y) and the core PCE PI, which excludes food and energy prices, increased +2.8%. Both numbers were unchanged from March and in-line with estimates, but the month-to-month (M/M) data, measuring price changes in April 2024 compared to March 2024, for core PCE rose +0.2%, the lowest increase since December 2023. M/M is important as it measures the near-term trend and, if sustained, points to renewed progress to achieve the Fed’s +2.0% inflation target. If we annualize (x12) the M/M core PCE PI number then it was +2.4%, but that is just one month of data. Better is the annualized 6-month average M/M data, which was +3.2% in April vs. +4.4% in March, a trend we view positively. With respect to food and energy, while higher gasoline prices in April drove a +1.2% price gain from the prior month, food prices dropped -0.2%, the first price relief since November 2023. The consumer price index (CPI), the more widely followed inflation series which is reported by the Bureau of Labor Statistics (BLS), had reported April data two weeks earlier (on 5/15/24) and showed improvement on all measures (both CPI and core CPI, Y/Y and M/M). Due to a larger weighting given to housing (rent and owners’ equivalent rent), the CPI has run higher (April core CPI was + 3.6% Y/Y and +0.3% M/M) but with both CPI and PCE PI data reported lower for the month, investors breathed a sigh of relief, as lower inflation, if sustained, can support lower interest rates ahead. Treasury yields (TY) lurched lower as the U.S. 10-year TY was 4.41% on 6/3/24, down from 4.61% on 5/29/24, and the 2-year TY was 4.82%, down from 4.99%, respectively. This helped drive a +1.5% gain in the S&P 500 index on Friday (5/31/24) but the index still ended the week down -0.5%.

Improving inflation data, along with positive economic growth, is a “Goldilocks” scenario that is cheered by markets but remains a fine line if the economy slows more than expected. April’s PCE inflation report was part of the larger personal income and outlays data, which showed that consumer spending increased +0.2% in the month and real consumer spending (adjusted for inflation) declined -0.1%. These were the lowest numbers since January and suggested that spending trends in the first month of the second quarter (2Q24) were weaker than 1Q24 levels. Spending on goods dropped -0.2% while services spending of +0.4% remained robust. The Atlanta Federal Reserve Bank’s GDPNow forecast (gross domestic product), which measures current quarter GDP trends as data is reported, moved to +2.7% on Friday. While still a healthy number, the model reflected +4.2% growth as recently as early May. At the same time that current growth trends appear to be slowing, the previously reported 1Q24 GDP growth of +1.6% was revised lower to +1.3% as consumer spending was lower than initially reported.

Given our concerns about slowing consumer trends, strength in the labor market is needed to support spending growth and consumer confidence. Labor data to be released this week includes the BLS’ jobs report for May on Friday. Nonfarm payrolls (jobs) are estimated to have increased by +180 thousand (K) for the month, similar to the +175K increase reported in April. This already reflects a deceleration from 1Q24 when monthly jobs gains averaged +269K. The rate of unemployment is expected to remain unchanged at 3.9%, with wage gains estimated to grow +3.9%. Job gains above +175K with wage growth above inflation likely can support spending growth ahead, but we believe consumer spending risks are to the downside.

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Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between \$200 million and \$5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.

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.

U.S. economic growth: 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. The most recent GDP report can be found at www.bea.gov. GDP data is reported quarterly by the Bureau of Economic Analysis.

The Federal Reserve Bank of Atlanta publishes and updates its GDPNow Forecast as a running estimate of GDP growth trends as data is reported in the current quarter. It is best viewed as a running estimate of real GDP growth based on available economic data for the current measured quarter. There are no subjective adjustments made to GDPNow—the estimate is based solely on the mathematical results of the model. The GDPNow Forecast can be found [here](#).

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

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. Y/Y is year-over-year and M/M is month-over-month.

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).

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is [here](#).

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet

Personal Income and Outlays is reported monthly by the U.S. Bureau of Economic Analysis. Personal Income is the income received by all persons from all sources. Personal Outlays is spending by consumers on goods and services, personal interest payments and current transfer payments.

We use the term "Goldilocks" to describe an economy that is "not too hot" or "not too cold," suggesting economic growth that slows but remains positive.

The Bureau of Labor Statistics (BLS) compiles U.S. labor statistics from two monthly surveys. The household survey measures labor force status by demographics, while the establishment survey measures nonfarm employment and data by industry. The nonfarm payrolls component of the establishment survey is drawn from private businesses and government entities. The nonfarm payrolls number is among the most widely used data points to assess U.S. employment trends. The unemployment rate is the percentage of the labor force that is jobless and actively willing and available to work. Wage growth is measured by average hourly earnings (AHE). Wages include overtime and late shift work but exclude benefits.