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WEEKLY MARKET RECAP | May 21, 2024

Week in Review

Equity Markets:

Last week saw all major indices hit new record highs. On Wednesday, the S&P 500 reached 5,325 and the Dow topped the 40,000 level for the first time. The Russell 1000 Growth Index extended its year-to-date gain to 13.34%, well above its value counterpart's return of 8.95%. Emerging markets were the top performer last week, returning 2.72%[1]. Headlines this year have been dominated by technology names and artificial intelligence. Surprisingly, the utilities sector is the second best performing sector this year and is up 15.2%, slightly ahead of the technology sector's return of 15.1%.

With only a handful of companies remaining to report earnings this quarter, results have come in much better than initially expected. 78% of companies have reported earning surprises and 60% of companies have exceeded revenue expectations[2]. The blended earnings growth rate for the S&P 500 for Q2 is expected to be 5.7%[2]. If actual results come in as expected, this will mark the highest quarter for earnings growth since the 5.8% growth in the second quarter of 2022.

Fixed Income Markets:

Following the inflation reports, yields retreated. The 10-year Treasury Yield fell 0.08% and finished the week at 4.42%. The 2-year Treasury Yield was more stable and only fell 0.04% ending the week at 4.83%. The yield curve remains inverted at -0.41%.

Despite the positive inflation reports, the Fed Fund's Futures Market was little changed. The markets are pricing in the first rate cut to come in September, with a current probability of 63%[3]. Market expectations have also come more in line with commentary from policymakers. The futures market is pricing in between 2 and 3 rate cuts for the year[3].

Economic:

The inflation environment showed improvement in April. The Consumer Price Index rose 0.3% during the month and rose 3.4% year-over-year. Core CPI, which excludes food and energy, rose 3.6% on an annual basis. Both of these readings came in below estimates. Retail sales were flat for the month, which could point to the consumer starting to tighten. The retail sales results came in well below the 0.4% increase that economists were expecting. On a global scale, China continued to pump stimulus into the economy. This time in the housing sector which has experienced a multi-year decline.

Looking Ahead

Equity Markets:

The markets have continued to climb this year on the back of stronger-than-expected earnings and periods of multiple expansion. Currently, the Forward Four Quarter P/E is 20.9x. While this is not at extreme levels, it is elevated. Going forward, we don't believe that multiple expansion will continue to be a strong tailwind. There could be short periods of expansion, but should be seen as a sustainable source of market growth. Earnings expectations have improved, and if they continue, will be the sustainable tailwind for the market to continue to climb. Corporations have improved their outlooks relative to the previous quarter. The ratio of positive to negative pre-announcements has come back to normal at a level of 1.9 negative announcements for every positive announcement[4]. For reference, in the first quarter, this ratio was 3.0[4].

We believe investors should take this time to evaluate their desired risk level and make sure their strategic allocations align with their long-term goals and objectives. We don't believe this is an environment that warrants excess risk-taking and investors should remain committed to their strategic target allocations. If near to intermediate-term liquidity needs are present, reducing risk in that portion of your portfolio might be a consideration that could be worth while.

Fixed Income Market

The most recent inflation reports showed improvement, but the level remains well above the Federal Reserve's 2% target. We believe policymakers will be reluctant to cut rates too early and will lead to a sidewise market through the end of the year. We see the 10-year Treasury Yield staying rangebound in the 4.25-4.75% level.

We believe peak rates are behind us, and our long-term outlook remains positive for the fixed income markets. We believe a quality tilt is appropriate as investors do not need to reach down in credit quality to capture yield and credit spreads are historically narrow.

Economic:

The economic calendar will be light this week. On Wednesday, the minutes from the most recent Fed meeting will be released; also being released will be the Existing Home Sales Report from the National Association of Realtors. On Thursday, the weekly unemployment report and New Home Sales will be released. To close the week, the final reading of the University of Michigan Consumer Sentiment Index will be released.

***** 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://lipperalpha.refinitiv.com/wp-content/uploads/2024/05/TRPR_82221_747.pdf

3) CME Group
https://www.cmegroup.com/markets/interest-rates/cme-fedwatch-tool.html

4) LSEG I/B/E/S
https://lipperalpha.refinitiv.com/wp-content/uploads/2024/05/TRPR_82221_747.pdf

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