

March 18, 2024

Weekly Viewpoint

Fed on Tap: Watch What They Say Not What They Do

Performance for Week Ending 3/15/2024

The Dow Jones Industrial Average (Dow) finished off 0.02%, the Standard & Poor's 500 Index (S&P 500) lost 0.13% and the Nasdaq Composite Index (NASDAQ) fell 0.70%. Sector breadth was mixed with 6 of the S&P sector groups closing lower and 5 closing higher. The Energy sector (+3.74%) was the best performer while Real Estate (-3.12%) was the weakest.

Index*	Closing Price 3/15/2024	Percentage Change for Week Ending 3/15/2024	Year-to-Date Percentage Change Through 3/15/2024
Dow	38714.77	-0.02%	+2.72%
S&P 500	5117.09	-0.13%	+7.28%
Nasdaq	15973.17	-0.70%	+6.41%

Market Observations: 3/11/2024 – 3/15/2024

Stocks finished the week modestly lower after a couple of hotter than expected inflation reports sparked worries that the Fed will hold rates higher for longer. It was the second straight weekly decline for the S&P 500, an event that hasn't occurred since late-October. Investors will look for clarity on the Fed's rate path at this week's FOMC meeting. According to economists surveyed by Bloomberg News, the recent pickup in inflation isn't likely to shift Fed policymakers' forecasts for three interest-rate cuts this year. In terms of the timing of the first cut, Bloomberg's World Interest Rate Probability tool is suggesting the first cut is likely to come around midyear with a growing likelihood it could come at the July meeting as rate cut probabilities for June have retreated in recent weeks (currently around 60% down from over 96% as of March 1).

Inflation Stickier Than Expected (at least for now): After peaking in June 2022, the moderation in both consumer and producer prices has stalled in recent months as underlying inflation topped forecasts for a second month in February driven by jumps in used cars, air travel and clothes. The core consumer price index—which excludes food and energy prices—increased 0.4% from January. From a year ago, it advanced 3.8%. The headline CPI climbed 0.4% from January and 3.2% from a year ago, boosted by gasoline prices.

Shelter and gasoline contributed over 60% of the overall monthly advance. Meanwhile, prices paid at the producer level rose in February by the most in six months, driven by higher fuel and food costs, adding to evidence inflation remains sticky. The producer price index (PPI) for final demand increased 0.6% from January. The gauge rose 1.6% from a year earlier, the largest annual advance since September. The so-called core PPI, which excludes volatile food and energy categories, advanced 0.3% from the prior month, and 2% from a year ago.

In Other Economic News: Retail sales rose by less than forecast in February after a steep drop to start the year, underscoring concerns about the durability of consumer spending. The value of retail purchases, unadjusted for inflation, increased 0.6% from January after a downward revision to the prior month. Excluding cars, sales advanced 0.3%. Eight out of 13 categories posted increases, led by building material stores and auto dealers, which rose by the most since May. The so-called control-group sales — which are used to calculate GDP — were unchanged in February after falling in the prior month. The measure — which excludes food services, auto dealers, building materials stores and gasoline stations — suggests weaker economic activity so far in Q1. Elsewhere, optimism amongst small-business owners slipped to a nine-month low in February as high prices and elevated borrowing costs took a toll on expansion plans, according to the National Federation of Independent Business. The index of sentiment fell 0.5 point to 89.4, marking the sixth decline in the past seven months. Some 21% of respondents said they plan capital expenditures in coming months, the smallest share since April. On the inflation front, consumer expectations for inflation over the next three years climbed in February — and increased even more sharply for the five-year horizon — a New York Fed survey showed. Median three-year-ahead inflation expectations rose to 2.7% last month, rebounding from a record low in January. Five-year expectations, meanwhile, climbed to a six-month high of 2.9%. Projected year-ahead inflation was unchanged from January at 3%. Lastly, mortgage rates dropped back below 7% for the first time in a month, spurring an increase in applications for home purchases. The contract rate on a 30-year fixed mortgage decreased 18 basis points, the biggest decline in nearly three months, to 6.84% in the week ended March 8, according to Mortgage Bankers Association data.

Q4 Earnings Season: With Q4 earnings season all but officially wrapped up, overall results were much better than feared. Through Friday, 499 members of the S&P 500 have reported results with over 75% beating expectations. Aggregate earnings grew by 7.9%, well ahead of the 1.2% estimated pace in early-January. On the sector level, the strongest growth was delivered by the Communication Services, Utilities and Consumer Discretionary sectors while the Energy and Materials sectors posted the weakest results. The focus in the coming weeks will now shift to first quarter results. Consensus earnings expectations for the S&P 500 compiled by Bloomberg shows growth in the first quarter is expected to expand by 4.1%. On the sector level, 7 of the 11 S&P sector groups are forecast to deliver positive growth with the strongest coming from Communication Services, Utilities, Technology, and Consumer Discretionary. Looking to full year data, 2024 S&P 500 earnings growth is estimated at 9.9% followed by 14.0% growth during 2025.

The Week Ahead: It will be a busy week on the central bank front with policy decisions from the Federal Reserve, the Bank of Japan, and the Bank of England. In terms of the Fed, the no changes in policy are expected but all

eyes will be on the Fed's messaging around rate cuts following last week's hot inflation figures. Investors will also be laser-focused on the latest summary of economic projections and the dot plot, which will show where officials see rates moving over the next few years. Housing will be the focus of the data calendar this week with reports due out on housing starts and building permits, as well as existing home sales. Other economic reports of interest include the S&P Global Manufacturing and Services reports (Thursday) and the Index of Leading Economic Indicators on Friday.

Definitions

The Dow Jones Industrial Average is a price-weighted average of 30 blue-chip stocks that are generally defined as the leaders in their industry. It has been a widely followed indicator of the stock market since October 1, 1928.

Standard and Poor's 500 Index is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The Nasdaq Composite Index is a broad-based capitalization-weighted index of stocks in all three NASDAQ tiers: Global Select, Global Market and Capital Market. The index was developed with a base level of 100 as of February 5, 1971.

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