

May 20, 2024

# Weekly Viewpoint

## Slowing Inflation Bolsters Equity Market

### Performance for Week Ending 5/17/2024

The Dow Jones Industrial Average (Dow) gained +1.24%, the Standard & Poor's 500 Index (S&P 500) added +1.54% and the Nasdaq Composite Index (NASDAQ) rose by +2.11%. Sector breadth was positive with 9 of the 11 S&P sector groups closing higher. The Technology sector (+2.90%) was the best performer followed by Real Estate (+2.53%) and Healthcare (+1.84%).

Index*	Closing Price 5/17/2024	Percentage Change for Week Ending 5/17/2024	Year-to-Date Percentage Change Through 5/17/2024
Dow	40003.59	+1.24%	+6.14%
S&P 500	5303.27	+1.54%	+11.18%
Nasdaq	16685.9	+2.11%	+11.16%

### Market Observations: 5/13/2024 – 5/17/2024

The S&P 500 finished higher for a fourth straight week with the broader market benchmark posting a fresh all-time closing high on Wednesday. The Dow Jones Industrial Average finished the week above the 40,000 level for the first time ever. Driving the gains was the better than forecast consumer price index data, which showed core inflation, which strips out volatile food and fuel prices, rose by 3.6 percent on an annual basis last month, the lowest level in three years. Better than expected quarterly results and a favorable forward outlook from retail bellwether and Dow-component Walmart added to the positive tone and eased some concern about the health of the US consumer.

While inflation still remains well above the Fed's 2 percent target, traders were encouraged by the results and upped the ante and now see two Fed rate cuts this year. In terms of timing of the first rate cut, 'Fed Whisperer' Nick Timiraos of the Wall Street Journal said: "Because it will likely take another two reports to shore up officials' confidence that inflation can return to the lower levels that prevailed before the pandemic, the Fed might not be ready to cut interest rates before September."

**Fedspeak:** Despite the upbeat news on consumer inflation, Fed speakers continued to express concern that inflationary pressures may linger. New York Fed President John Williams said the latest US inflation data confirm price pressures are gradually easing but he still needs more evidence to adjust interest rates. “I don’t see any indicators now telling me, that there’s a reason to change the stance of monetary policy now, and I don’t expect that.” Richmond Fed President Thomas Barkin said the central bank needs to keep borrowing costs elevated for longer to lower inflation to its 2% target, citing higher prices in the services sector. Barkin told CNBC that US demand will need to slow a bit to get inflation to the Fed’s goal, noting goods inflation has come down significantly as supply chains have healed. Cleveland Fed President Loretta Mester said policymakers need more data to be confident inflation is on a path to the central bank’s 2% target, and suggested officials should keep interest rates elevated for longer to make it happen. Monetary policy is well positioned at the moment, Mester reiterated. Chicago Fed President Austan Goolsbee welcomed the slowdown in price growth in April but said there’s still room for more disinflation and signaled he’d like to see more such reports before supporting rate cuts. Inflation showed “some improvement from last time, pretty much what we expected, but still higher than we were running for the second half of last year,” Goolsbee said.

**Economic Roundup:** US retail sales stagnated in April after downwardly revised gains in the prior two months, as high borrowing costs and mounting debt seem to be encouraging greater prudence among shoppers. The value of retail sales in April were unchanged (0.0%) after a downwardly revised 0.6% increase in March. The so-called control-group sales — which are used to calculate gross domestic product — dropped 0.3% in April after a 1% gain. The measure excludes food services, auto dealers, building materials stores and gasoline stations. Initial applications for unemployment claims fell last week, after seasonal factors caused a significant increase in New York claims in the prior week. Initial claims decreased by 10K to 222K in the week ended May 11. The four-week moving average, which helps smooth week to week volatility, increased to 217.8K, the highest level since November. The Labor Department reported that US producer prices rose in April by more than projected, increasing 0.5% from a month earlier, driven largely by services and following a downwardly revised 0.1% drop in March. Compared with a year ago, the PPI rose 2.2%. The core PPI also rose 0.5% from a month earlier after a similar decrease in March. The core measure increased 2.4% versus a year earlier.

**Q1 EPS Season:** With of 90 percent of S&P 500 members having already released results, the earnings calendar will start to move to the backburner. Through Friday, 466 members of the S&P 500 have released results with just under 80% beating expectations. Aggregate earnings for this group are up 5.25%, solidly of expectations at the start of earnings season. The high beat rate coupled with the better than feared results has led to upward earnings revisions, with analysts now expecting 7.3% growth for the overall quarter. On the sector front, the strongest growth has come from Communication Services (+41.4%) followed by Consumer Discretionary (+34.4%) and Utilities (+30.5%). On the flip side, Healthcare (-26.2%) and Energy (-25.7%) have posted the weakest results. A look at full year growth expectations shows analysts forecasting 9.4% growth this year followed by 13.75% growth in 2025.

**The Week Ahead:** It's expected to be a relatively slow week as attendance is likely to fade ahead of the upcoming holiday weekend. While the equity markets are open for the full day on Friday, the bond market will close at 2:00pm ET. Data reports of interest this week include April existing home sales, the S&P manufacturing and services PMIs, weekly jobless claims, April new home sales, and April durable goods orders. Q1 earnings will be in focus for one more week with 16 members of the S&P 500 scheduled to report. Reports of note include A.I. bellwether Nvidia on Wednesday and retailers Lowe's, Target, TJX Companies, and Ross Stores. On the central bank front, it will be a busy will for Fed speeches with 14 presentations on the docket. Also of interest will be the release of the May FOMC meeting minutes on Wednesday afternoon.

## 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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