April 15, 2024

Weekly Viewpoint

Sticky Inflation Weighs on Investor Sentiment

Performance for Week Ending 4/12/2024

The Dow Jones Industrial Average (Dow) finished down 2.37%, the Standard & Poor's 500 Index (S&P 500) lost 1.56% and the Nasdaq Composite Index (NASDAQ) shed 0.45%. Sector breadth was negative with all 11 of the S&P sector groups closing lower. The Financials sector (-3.60%) was the worst performer followed by Health Care (-3.12%) and Materials (-3.10).

Index*	Closing Price 4/12/2024	Percentage Change for Week Ending 4/12/2024	Year-to-Date Percentage Change Through 4/12/2024
Dow	37983.24	-2.37%	+0.78%
S&P 500	5123.41	-1.56%	+7.41%
Nasdaq	16175.09	-0.45%	+7.75%

Market Observations: 4/8/2024 – 4/12/2024

Stocks finished the week lower, on very volatile trading, as investors reacted to inflation data and its potential impact on the outlook for monetary policy. The closely watch Consumer Price Index (CPI) topped expectations for a third straight month, a trend that is likely to delay an interest-rate cut from the Federal Reserve until later in the year. The so-called core consumer price index, which excludes food and energy prices, increased 0.4% from February. From a year ago, it advanced 3.8%, holding steady from the prior month. Core CPI over the past three months increased at an annualized pace of 4.5%, the most since May. Meanwhile, wholesale prices, as measured by the Producer Price Index (PPI) rose 0.2% in March, while economists polled by Bloomberg expected 0.3% growth. Core PPI increased 0.2%, on target with forecasts. While the Fed certainly pays close attention to the PPI & CPI data, its preferred measure of inflation is the core PCE report which will be reported on April 26. Taking both the PPI and CPI data into account, the March core PCE inflation is likely to be less alarming than the hot CPI print that triggered a sharp drawdown in the equity markets and a surge in Treasury yields. According to consensus expectation amongst economists, core PCE is expected to moderate to 2.7% during March from 2.8% in February.

Fed Heads Remain in 'Wait and See' Mode: Fed officials continue to operate from the same playbook as their general messaging is that they are still waiting for more confidence that inflation is on a path to their 2 percent target. New York Fed President John Williams said the central bank has made "tremendous progress" toward better balance on its inflation and employment goals but added there's no need to cut in the "very near term." Williams added that inflation still has "a ways to go" to get to the Fed's 2% goal. Boston Fed President Susan Collins said it may take more time than previously thought to gain the confidence to begin easing policy, possibly warranting fewer rate reductions this year. Collins said recent data have eased concerns about an "imminent need" to adjust interest rates, though she still expects cuts to begin later this year. "Overall, the recent data have not materially changed my outlook, but they do highlight uncertainties related to timing, and the need for patience — recognizing that disinflation may continue to be uneven," Collins said in prepared remarks at an event. "This also implies that less easing of policy this year than previously thought may be warranted." Chicago Fed President Austan Goolsbee said policymakers still have a way to go on cooling inflation, but that the trade-offs between bringing down prices and keeping employment high are going to be heightened in 2024. Speaking at the same event as Goolsbee, Richmond Fed President Thomas Barkin said, "I think we're making a lot of progress, but we need to be humble about how easy it is to get there." He added that Wednesday's CPI figures suggest it may just take some time to get inflation back down.

March FOMC Meeting Minutes: The minutes from the March FOMC meeting showed "almost all" officials judged it would be appropriate to begin lowering borrowing costs "at some point" this year. However, inflation and payroll data since then has upended expectations for three interest-rate cuts this year. Policymakers noted that the disinflation process was continuing along a path that was generally expected to be somewhat uneven. Fed officials also began discussing plans for slowing down the process of unwinding their massive balance sheet, known as quantitative tightening, though no decisions were made at the meeting. Most officials, however, saw the process as proceeding smoothly, and they "broadly assessed" it would be appropriate to take a cautious approach to further runoff given market turmoil in 2019, the last time the Fed tried to shrink its portfolio.

Economic Roundup: Outside of the inflation reports it was a pretty quiet week on the data front. US mortgage rates last week topped 7% for the first time in a month, while home purchase applications fell by the most since mid-February. The contract rate on a 30-year fixed mortgage rose 10 basis points to 7.01% in the week ended April 5, according to Mortgage Bankers Association data. That depressed the group's index of mortgage applications for home purchases, which slipped 4.7% to the lowest level in a month. Despite the drop in mortgage applications for home purchases, MBA's overall index of applications managed to eke out a slight gain due to a jump in refinancing activity. That gauge rose to the highest level since early February. On the labor front, initial jobless claims fell by 11K to 211K in the week ending April 6. The four-week moving average —which helps to smooth the week-to-week volatility—came in at 214.3K, little changed from the prior week.

Q1 EPS Season – an Early Look: First quarter earnings season began to ramp up last week. Expectations for the overall quarter are relatively low with only about 2% year-over-year growth expected. While it is still very early, a look at the so-called early reporters suggests expectations could prove a bit too conservative. Through Friday, 29 members of the S&P 500 have released results with 86% beating expectations. Aggregate growth for this group is up over 20 percent, with the growth being fueled by the Technology and Consumer Discretionary sectors – Stay Tuned!

The Week Ahead: The focal points of this week's data calendar include retail sales (Monday), industrial production and housing starts (Tuesday) and existing home sales (Thursday). It will be another busy week of Fed speak with at least 13 appearances on the calendar including Fed Chair Powell on Tuesday. Separately, the Fed will release its latest Beige Book report on Wednesday. First quarter earnings season begins to ramp up with 41 members of the S&P 500 scheduled to release results. Amongst this group are six components of the Dow Jones Industrial Average.

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.