March 25, 2024

Weekly Viewpoint

Stocks Fly on Dovish Fed

Performance for Week Ending 3/22/2024

The Dow Jones Industrial Average (Dow) finished up 1.97%, the Standard & Poor's 500 Index (S&P 500) added 2.29% and the Nasdaq Composite Index (NASDAQ) gained 2.85%. Sector breadth was positive with 10 of the 11 S&P sector groups closing. The Communication Services sector (+4.78%) was the best performer followed by Technology (+2.92%) and Industrials (+2.89%). The Real Estate sector (-0.44%) was sole loser.

Index*	Closing Price 3/22/2024	Percentage Change for Week Ending 3/22/2024	Year-to-Date Percentage Change Through 3/22/2024
Dow	39475.90	+1.97%	+4.74%
S&P 500	5234.18	+2.29%	+9.74%
Nasdaq	16428.82	+2.85%	+9.44%

Market Observations: 3/18/2024 – 3/22/2024

Stocks finished the week solidly higher, with the S&P 500 posting its best weekly advance so far this year. Driving the gains was a batch of favorable housing market data and the more dovish than expected outcome to last week's FOMC meeting, where Fed officials calmed worries that the central bank could scale back its forecast for rate cuts this year. Following the recently reported hotter than expected consumer and producer price index reports, investors feared a higher for longer outcome to the meeting with the Fed potentially cutting back the number of expected rate cuts from three to two. The Summary of Economic Projections soothed worries with the updated "dot plot" still showing the median number of cuts this year remained at three. During the after-meeting press conference, Fed Chair Powell also noted that the January and February inflation data were likely to be just a bump in the road and that they "haven't really changed the overall story" of inflation heading back towards 2%.

FOMC Meeting: As expected, Fed officials left the benchmark federal funds rate in a range of 5.25% to 5.5%, for a fifth straight meeting. Policymakers signaled they remain on track to cut rates this year for the first time since March 2020. "If the economy evolves broadly as expected, it will likely be appropriate to begin dialing back policy restraint at some point this year," Chair Jerome Powell said at a press conference, repeating comments he made following the Fed's last rate decision in January. The Fed's post-meeting statement was nearly identical to January's, maintaining the guidance that rate cuts won't be appropriate until officials have more confidence inflation is moving sustainably toward their 2% target. "The committee judges that the risks to achieving its employment and inflation goals are moving into better balance," according to policymakers.

Economic Roundup: The housing sector was in focus last week. Sales of previously owned homes surged in February to the fastest pace in a year as inventory levels increased. Contract closings increased 9.5% from a month earlier to a 4.38 million annualized rate, according to National Association of Realtors. The number of previously owned homes for sale climbed to about 1.07 million last month. At the current sales pace, selling all the properties on the market would take 2.9 months, the lowest in about a year. Realtors see anything below five months of supply as indicative of a tight market. Meanwhile, new US home construction bounced back sharply last month from weather-related weakness at the start of the year as builders benefit from slightly more favorable mortgage rates. Residential starts increased 10.7% in February, the largest since May, to a 1.52 million annualized rate. Building permits, a proxy for future construction, rose to a 1.52 million rate, the fastest since August. Elsewhere, sentiment among US homebuilders climbed to an eight-month high in March as a limited number of existing homes for sale and mortgage rates that are down from their peak spurred demand. The NAHB/Wells Fargo index of housing market conditions increased by 3 points to 51, while a measure of expected sales in the next six months rose to 62, the highest since June. Away from the housing market, US manufacturing activity expanded by the most since mid-2022 as production and factory employment growth accelerated along with measures of inflation. The S&P Global flash March factory purchasing managers index edged up 0.3 point to 52.5, marking the third straight month above a level of 50 that indicates expansion.

The Week Ahead: The focal point of the data calendar will be Friday's release of the core PCE inflation data – the Fed's preferred measure of inflation. Since markets will be closed on Friday due to the Good Friday holiday, the reaction to the news won't come until Monday. According to Bloomberg, core PCE during February is expected to dip to +0.3% from +0.4% in January. On a year-over-year basis, the estimate for core PCE is +2.8%, unchanged from the prior month. Other notable US data releases include the Conference Board's consumer confidence and durable goods orders on Tuesday. There are a handful of Fed Heads expected to speak this week, including Fed Chair Powell 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.