April 22, 2024

Weekly Viewpoint

Tech Wreck Weighs on the Broader Markets

Performance for Week Ending 4/19/2024

The Dow Jones Industrial Average (Dow) finished little changed (+0.01%), the Standard & Poor's 500 Index (S&P 500) lost 3.05% and the Nasdaq Composite Index (NASDAQ) fell 5.52%. Sector breadth was negative with 8 of the 11 S&P sector groups closing lower. The Technology sector (-7.26%) was the worst performer followed by Consumer Discretionary (-4.52%) and Real Estate (-3.64%). On the upside, the Utilities sector (+1.87%) was the best performer.

Index*	Closing Price 4/19/2024	Percentage Change for Week Ending 4/19/2024	Year-to-Date Percentage Change Through 4/19/2024
Dow	37986.40	+0.01%	+0.79%
S&P 500	4967.23	-3.05%	+4.14%
Nasdaq	15282.01	-5.52%	+1.80%

Market Observations: 4/15/2024 – 4/19/2024

The S&P 500 came under pressure for a third straight week, with the broader market index now down 5.46% from the closing high of 5254 reached on March 28. The weakness has been driven by signs the economy remains resilient and inflation is sticky, which in turn has reduced the likelihood of Fed rate cuts this year. According to Bloomberg's World Interest Rate Probability tool, only 42 basis points of easing are now discounted in the futures market, well off the 150 basis points of expected easing at the start of this year. Geopolitical tensions in the Mideast have also weighed on investor sentiment. The weakness has resulted in some technical damage, with the S&P 500 falling below some key support levels. Despite the recent setback, the path of least resistance over the course of the year is still expected to be higher. Macro fundamentals remain supportive as a strong economy, solid earnings growth, healthy consumer spending and near record amounts of cash sitting on the sidelines, should provide a favorable backdrop for risk assets.

Fed – Higher for Longer: Fed officials continue to sing from the same songbook with the general message being that they are still waiting for more confidence that inflation is on a path to their 2 percent target. In a much-anticipated update, Fed Chair Powell signaled policymakers will wait longer than previously anticipated to cut interest rates following a series of surprisingly high inflation readings. Powell pointed to the lack of additional progress made on inflation after the rapid decline seen at the end of last year, noting it will likely take more time for officials to gain the necessary confidence that price growth is headed toward the Fed’s 2% goal before lower borrowing costs. Fed Vice Chair Philip Jefferson said he expects inflation will continue to moderate with interest rates at their current level, but persistent price pressures would warrant holding borrowing costs high for longer. Jefferson said that while there has been considerable progress in lowering inflation, the Fed's task of sustainably restoring 2% inflation is "not yet done." San Francisco Fed President Mary Daly reiterated there’s no urgency to adjust interest rates, pointing to solid economic growth, a strong labor market and still-elevated inflation. Daly said she needs to be confident inflation is heading toward the Fed’s 2% target before reacting. Chicago Fed President Austan Goolsbee said progress on bringing down inflation has "stalled" this year. "Given the strength of the labor market and progress on easing inflation seen over a longer arc, I believe the Fed's current restrictive monetary policy is appropriate," Goolsbee said during an appearance before a business journalism group in Chicago. "I think we have to recalibrate, and we have to wait and see."

Beige Book Released: The Beige Book, a compilation of anecdotal evidence on economic conditions in each of the twelve Fed districts, was released last week. The update, which is delivered ahead of upcoming FOMC meetings, stated that the US economy has “expanded slightly” since late February while firms reported greater difficulty in passing on higher costs. Consumer spending barely increased overall, but reports were quite mixed across Districts and spending categories. Several reports mentioned weakness in discretionary spending, as consumers’ price sensitivity remained elevated. Another frequent comment was that firms’ ability to pass cost increases on to consumers had weakened considerably in recent months, resulting in smaller profit margins. The Beige Book also noted that “price increases were modest, on average.” While raw materials costs were mixed, half of the Fed’s districts noted a pickup in energy prices. “On balance, contacts expected that inflation would hold steady at a slow pace moving forward. At the same time, contacts in a few Districts — mostly manufacturers — perceived upside risks to near-term inflation in both input prices and output prices.”

Economic Roundup: In a sign the US consumer continues to open their wallets, retail sales rose by more than forecast in March and the prior month was revised higher, showcasing resilient consumer demand that is helping to fuel the solid economy. The value of retail purchases, unadjusted for inflation, increased 0.7% from February, Commerce Department data showed. Excluding cars and gasoline, sales jumped 1%. The so-called control-group sales — which are used to calculate gross domestic product — jumped 1.1%, the most since the start of last year. That likely bodes well for 1Q GDP, which is due out later this week. Meanwhile, sales of previously owned homes in the US fell in March from a one-year high, underscoring the lingering impact of high mortgage rates and elevated prices. Contracts for existing home sale closings decreased 4.3% from a month earlier to a 4.19 million annualized rate. Mortgage rates climbed past 7% for the first time this year with the average for a 30-year fixed rate loan up to 7.1%, up from 6.88% last week, according to data from Freddie Mac.

Q1 EPS Season: First quarter earnings season is off and running. Expectations heading into the quarter were relatively muted, with analysts expecting only about 2% year-over-year growth expected. While it is still early, earnings are trending at a better than feared pace. Through Friday, 70 members of the S&P 500 have released results with 80% beating expectations. Aggregate growth for this group is up over 9 percent, with the growth being fueled by the Technology, Communication Services and Consumer Discretionary sectors.

The Week Ahead: The focal points of this week's data calendar will be first reading of Q1 GDP (Thursday) reading and PCE inflation (Friday). In terms of the Q1 GDP, economists surveyed by Bloomberg expect real GDP growth to slow to 2.5% from +3.4% in Q4. On Friday, the core PCE—the Fed's preferred measure of inflation—is expected to advance +0.3% in March, on target from +0.3% in February. On a year-over-year basis, core PCE is expected to dip to 2.7% from 2.8% in February. Other notable data releases include durable goods orders on Wednesday and new home sales on Tuesday. The earnings calendar will hit full stride this week with 155 members of the S&P are scheduled to release results. Included in this group are 11 members of the Dow Jones Industrial Average. It will be a quiet week in terms of Fedspeak as Fed heads enter into the quiet period ahead of the April 30/May 1 FOMC meeting.

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.