March 11, 2024

Weekly Viewpoint

Profit Taking Sets in Following Strong Year-to-Date Gains

Performance for Week Ending 3/8/2024

The Dow Jones Industrial Average (Dow) finished off 0.93%, the Standard & Poor's 500 Index (S&P 500) lost 0.26% and the Nasdaq Composite Index (NASDAQ) fell 1.17%. Sector breadth was positive with 8 of the 11 S&P sector groups closing higher. The Utilities sector (+3.19%) led the way higher followed by Materials (+1.58%) and Real Estate (+1.45%).

Index*	Closing Price 3/8/2024	Percentage Change for Week Ending 3/8/2024	Year-to-Date Percentage Change Through 3/8/2024
Dow	38722.69	-0.93%	+2.74%
S&P 500	5123.69	-0.26%	+7.42%
Nasdaq	16085.11	-1.17%	+7.15%

Market Observations: 3/4/2024 – 3/8/2024

Stocks finished the week lower, with the Tech-heavy Nasdaq Composite leading the way, as investors digested two days of testimony from Fed Chairman Powell and the Payroll data on Friday. Chair Powell took to Capitol Hill for his semi-annual testimony to House and Senate panels. Powell kept his prepared remarks relatively neutral but during the Q&A session he leaned mildly dovish by suggesting the central bank is getting close to the confidence it needs to start lowering interest rates. "We're waiting to become more confident that inflation is moving sustainably at 2%," Powell said adding "when we do get that confidence — and we're not far from it — it'll be appropriate to begin to dial back the level of restriction." While not giving specific timing to the first cut, Powell did say that it would likely be appropriate to cut interest rates "at some point this year." According to Bloomberg's World Interest Rate Probability tool, markets are placing 90% odds that the first-rate cut will come at the conclusion of the June FOMC meeting.

Meanwhile, the Labor Department reported that nonfarm payrolls grew by 275K during February, solidly ahead of the 200K gain expected by economists. Taking some of the shine off the report was revisions to the prior two months data showing the economy created 167K less jobs than originally estimated. The negative revisions lessened the worries that the job market is reaccelerating. The unemployment rate rose by 0.2% to 3.9% - the highest level since January 2022. On a year over year basis, average hourly earnings rose 4.3%, down from 4.4% in January, suggesting wage inflation continues to moderate.

Economic Roundup: The Institute for Supply Management (ISM) reported that growth in the service sector cooled in February, partly due to a decline in employment even as orders and business activity quickened. The ISM's gauge of services slipped to 52.6 from 53.4 but remained above the 50 level that signals expansion. On a positive note, the gauge of new orders placed with service providers — a proxy of future demand — increased to 56.1, the highest since August. The Labor Department reported that applications for US unemployment benefits held at historically low levels last week, coming in at 217K. The four-week moving average, which helps smooth some of the week-to-week volatility, was little changed at 212.25K. Elsewhere, the Business Roundtable reported that confidence among CEOs of large US companies jumped to the highest level since mid-2022 on stronger sales expectations and improvements in investment and hiring plans. The Business Roundtable's CEO Economic Outlook index increased 11 points to 85 during the first quarter, with readings above 50 indicating expectations for economic expansion in the next six months. Lastly, US mortgage rates slipped for the first time in five weeks as buyers head into the traditionally busiest season for the housing market. The average for a 30-year, fixed loan was 6.88%, down from 6.94% last week, according to Freddie Mac.

Fed Speak: Cleveland Fed President Loretta Mester said that the central bank should be able to start cutting rates later this year, though she first wants to see more evidence that inflation is cooling further. The economy and monetary policy are in a good place right now, Mester, a voting member of the FOMC this year, said in prepared remarks. "I will gain confidence when I see inflation continuing to move down," Mester said, adding "the FOMC will then be in a position to start reducing the level of restrictiveness by moving the fed funds rate down. If the economy performs as anticipated, I expect we will find ourselves in that position sometime later this year." Meanwhile, Atlanta Fed President Raphael Bostic said he expects the Fed's first interest-rate cut, which he has penciled in for the third quarter, will be followed by a pause the following meeting to assess how the policy shift is affecting the economy. Bostic, in a separate commentary published on the Atlanta Fed website, said he was worried that businesses have too much exuberance and could unleash a burst of new demand after a rate cut that adds to price pressures. That could be another reason not to cut rates at a rushed pace, he told reporters in a press briefing. Lastly, Chicago Fed President Austan Goolsbee said he expects policymakers will lower interest rates this year as inflation cools further. "As inflation comes down, we would be moving toward less restrictiveness over the course of the year," he said.

Beige Book Report: The US economy expanded at a modest pace since earlier in the year, while consumers showed more sensitivity to rising prices, the Federal Reserve said in its Beige Book survey of regional business contacts. The report, which compiles anecdotes and commentary on business conditions in each of the 12 Fed districts, is used as a playbook for forthcoming FOMC meetings. According to the report, economic activity increased slightly, on balance, since early January, with eight districts reporting slight to modest growth in activity, three others reporting no change and one district noting a slight softening. The report also noted that consumer spending, particularly on retail goods, inched down in recent weeks, while businesses found it harder to pass through higher costs to their customers, who became increasingly sensitive to price changes. Moreover, materials costs for many manufacturers and construction companies declined in recent weeks.

Q4 Earnings Season: With Q4 earnings season coming to an end, overall results were much better than feared. Through Friday, 495 members of the S&P 500 have reported results with over 75% beating expectations. Aggregate earnings for the group are up 8.0%, 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 turn 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 4.2%. On the sector level, 8 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 13.95% growth during 2025.

The Week Ahead: The focal points of this week's data calendar will be the Consumer Price Index (CPI) on Tuesday and monthly retail sales on Thursday. In terms of the CPI, the focus will be on whether the inflation uptick seen in the January report continues, which in turn could lead markets to push back the timing of Fed rate cuts. According to Bloomberg, the headline CPI is forecast to come in at 3.1% from a year ago, unchanged from the January level. The core rate—which excludes food and energy prices—is expected to dip to 3.7% y/y from 3.9% in January. Turning to politics, presidential primaries for both parties will continue following last week's Super Tuesday results. On the Fed front, there are no Fed speeches scheduled this week reflecting the traditional blackout period ahead of the March 19 & 20 FOMC meeting. It will be quiet on the earnings front with just a handful of S&P 500 members left to report.

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.