April 8, 2024

Weekly Viewpoint

Fed Heads Signals Patience

Performance for Week Ending 4.5.2024

The Dow Jones Industrial Average (Dow) finished down 2.27%, the Standard & Poor's 500 Index (S&P 500) lost 0.95% and the Nasdaq Composite Index (NASDAQ) shed 0.80%. Sector breadth was negative with 9 of the 11 S&P sector groups closing lower. The Healthcare sector (-3.07%) was the worst performer followed by Real Estate (-2.95%) and Consumer Staples (-2.67%). On the upside both Energy (+3.90%) and Communication Services (+2.47%) closed higher.

Index*	Closing Price 4/5/2024	Percentage Change for Week Ending 4/5/2024	Year-to-Date Percentage Change Through 4/5/2024
Dow	38904.04	-2.27%	+3.22%
S&P 500	5204.34	-0.95%	+9.11%
Nasdaq	16248.52	-0.80%	+8.24%

Market Observations: 4/1/2024 – 4/5/2024

Stocks finished the week lower reflecting mixed economic data, an uptick in bond yields, some hawkish Fed commentary, rising geopolitical tensions and worries that increasing oil and commodity prices will result in sticky inflation. On a positive note, the Friday's March payrolls report showed the economy adding 303k jobs, the most since last May, a sign the broader economy remains on firm footing. This, in turn, should continue to support corporate profits. According to Bloomberg corporate earnings are forecast to grow nearly 4% in the first quarter followed by 9.5% in the June quarter. Full year earnings are estimated to grow 9.0% this year. On the inflation front, sparking concern has been the sharp rebound in commodity prices. WTI oil prices are up over 20% year-to-date, resulting in a spike in gasoline prices, which have jumped by over 15% so far this year. Outside of energy, industrial metals like copper and aluminum have surged in recent weeks, and gold prices have recently hit new all-time highs. The Fed will get another look at inflation this week when the closely watched Consumer and Producer Price Indexes are reported on Wednesday and Thursday, respectively.

"At Some Point This Year": At an event at Stanford University, Fed Chair Jerome Powell signaled that policymakers will wait for clearer signs of lower inflation before cutting interest rates, noting that an uptick in prices during January and February didn't alter broader trajectory for inflation. "The recent data do not materially change the overall picture, which continues to be one of solid growth, a strong but rebalancing labor market, and inflation moving down to 2% on a sometimes-bumpy path," he said. "Given the strength of the economy and progress on inflation so far, we have time to let the incoming data guide our decisions on policy," Powell said in the opening remarks ahead of a fireside chat. "If the economy evolves broadly as we expect, most FOMC participants see it as likely to be appropriate to begin lowering the policy rate at some point this year." According to the CME FedWatch tool the probability of a rate cut at the June meeting now stands at just over a coin toss.

Other Fed Heads Also in No Hurry: If there was a general message from last week's batch of Fed speakers it was that they are in no hurry to begin cutting rates. San Francisco Fed President Mary Daly said the three rate cuts penciled in by Fed officials last month are a reasonable expectation, though there's no urgency to adjust at the moment. "I think that is a very reasonable baseline," Daly said during an event in Nevada. For now, "Growth is going strong, so there's really no urgency to adjust the rate," she said. Cleveland Fed chief Loretta Mester said she still sees three rate cuts as likely appropriate this year, but that "it's a close call" on whether fewer will be needed. Mester said earlier that she wants to see more evidence inflation is headed lower before beginning to cut rates. Minneapolis Fed chief Neel Kashkari said monetary policy easing may not be needed this year, depending on how inflation plays out. Chicago Fed President Austan Goolsbee said that higher-than-expected inflation readings in January and February likely don't change the broader picture of cooling price growth, adding that economic activity right now does not resemble a traditional overheating of demand. Lastly, Richmond Fed President Thomas Barkin said it's "smart" for the central bank to take time to gain greater clarity about the inflation trajectory before lowering interest rates. "No one wants inflation to reemerge," Barkin said in prepared remarks to the Home Building Association of Richmond.

Economic Roundup: US factory activity unexpectedly expanded in March for the first time since September 2022 on a sharp rebound in production and stronger demand, while input costs climbed. The ISM's manufacturing gauge rose 2.5 points to 50.3 last month, halting 16 straight months of shrinking activity. The forward-looking new orders component also returned to expansion territory after contracting in February. At the same time, the cost of materials and other inputs is rising, suggesting stubborn inflationary pressures. The gauge of prices paid rose by 3.3 points to 55.8, the highest since July 2022. Growth in the US services sector eased in March for a second month while a gauge of input costs slumped to a four-year low. The ISM's composite gauge of services fell 1.2 points to 51.4, largely reflecting a drop in the supplier deliveries index to a record low. Unlike on the manufacturing side, the index of prices paid for materials and services decreased more than 5 points to 53.4, the lowest since March 2020. On the jobs front, initial applications for US unemployment benefits rose to the highest since January, consistent with a recent uptick in the number of job cuts. Initial claims increased by 9K to 221K in the week ended March 30. The four-week moving average, which helps smooth week-to-week volatility, edged up to 214.3K, the highest since February but still below levels of the years preceding the pandemic.

The Week Ahead: The focal point of this week's data calendar will be the Consumer Price Index (CPI) report on Wednesday following two months of stronger-than-expected results. According to Bloomberg, economists expect gains in headline inflation to decline to +0.3% from +0.4% in February, with growth in the core measure—which excludes food and energy prices—also expected to moderate to +0.3% from +0.4%. On a year-over-year basis headline CPI is expected to rise to +3.5% (from +3.2%) while the core rate is forecast at +3.7% (down from +3.8%). Other inflation indicators due out include the Producer Price Index (PPI) on Thursday as well as consumer inflation expectations from the University of Michigan's survey for April on Friday. It will be another busy week of Fed speak with eight events scheduled. On Wednesday, investors will keep an eye on the Fed's March FOMC minutes for further cues on rate cut timing. First Quarter earnings season will kick-off in earnest this week with 10 members of the S&P 500 scheduled to release results, including banking giants JP Morgan, Wells Fargo, and Citigroup all 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.