Market Perspectives

April 2024

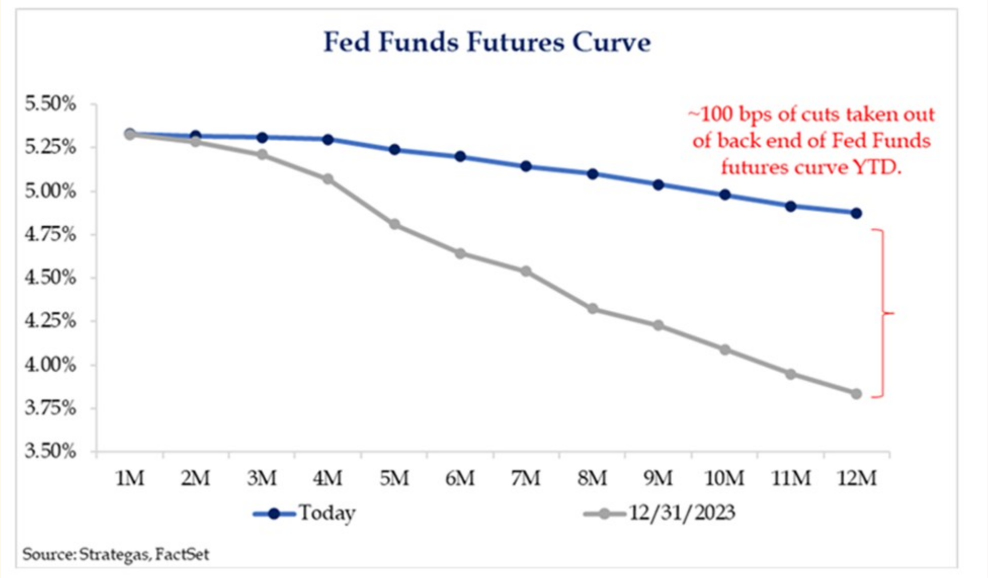
Bearish re-pricing of Fed rate cuts puts a halt to stock market rally.

Index	MTD	QTD	YTD	1 Year	2023
S&P 500	-4.08	-4.08	6.04	24.58	26.29
Dow Jones Industrial Average	-4.92	-4.92	0.92	16.17	16.18
Russell 2000	-7.04	-7.04	-2.22	11.28	16.93
NASDAQ Composite	-4.38	-4.38	4.52	29.17	44.64
Europe, Australia, & Far East (EAFE)	-2.35	-2.35	3.33	13.06	18.85
MSCI Emerging Markets	0.74	0.74	2.92	9.10	10.27
Bloomberg Barclays U.S. Aggregate Bond	-2.53	-2.53	-3.28	-0.87	5.53

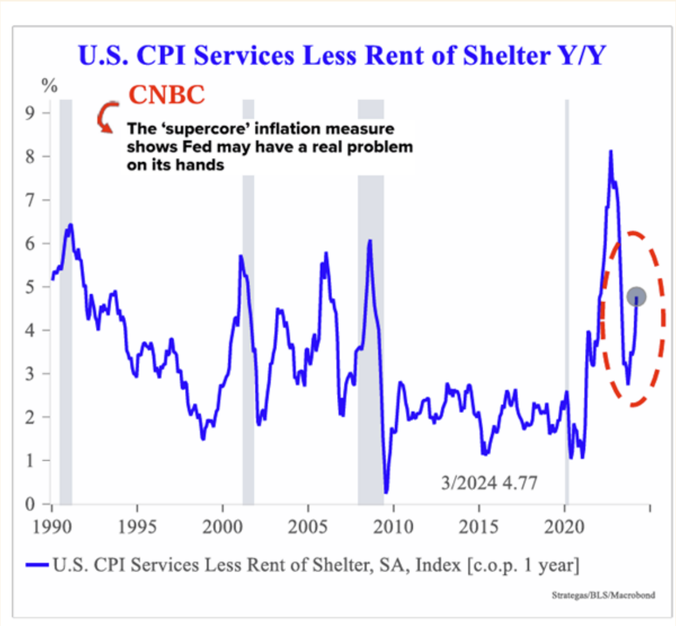
As of 4.30.24; Returns in percent

U.S. equities were down sharply in April, with major indices giving back some ground after the notable gains in the first quarter of the year. After closing at a fresh record high of 5254 at the end of March, the S&P dropped nearly 5.5% through April 19, moving back below 5000 following a six-day losing streak before rallying somewhat into the end of the month. For the month, the S&P 500 fell 4.1%, while the Nasdaq dropped 4.4%. Small cap stocks also suffered, as the Russell 2000 Index declined 7.0%.

The key driver of the negative performance was a re-pricing of expected Fed rate cuts, with investors now believing that the Fed may only reduce the Fed Funds rate one time, i.e. by only 0.25%, and may not do so until September at the earliest. This is in sharp contrast to the 6+ cuts expected at the beginning of the year.



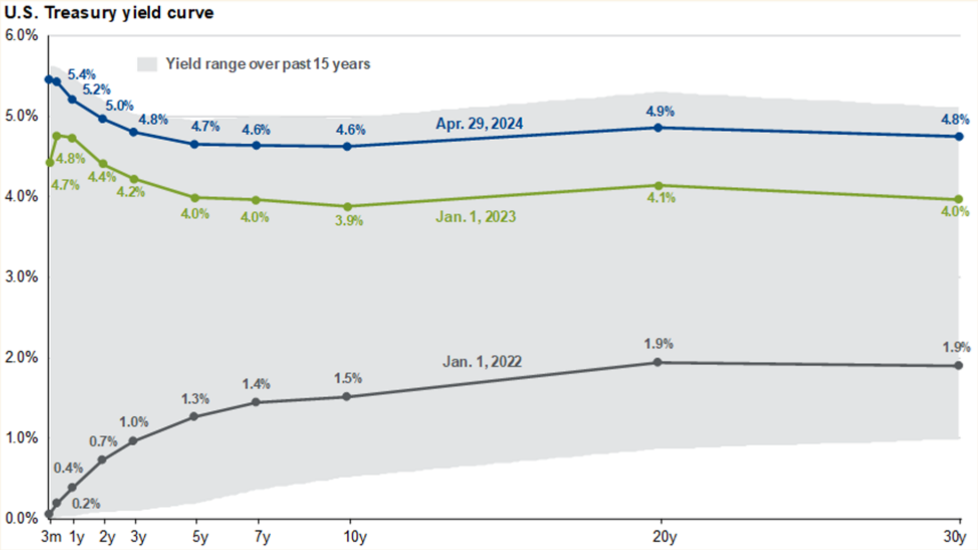
Source: Strategas; As of 4.30.24



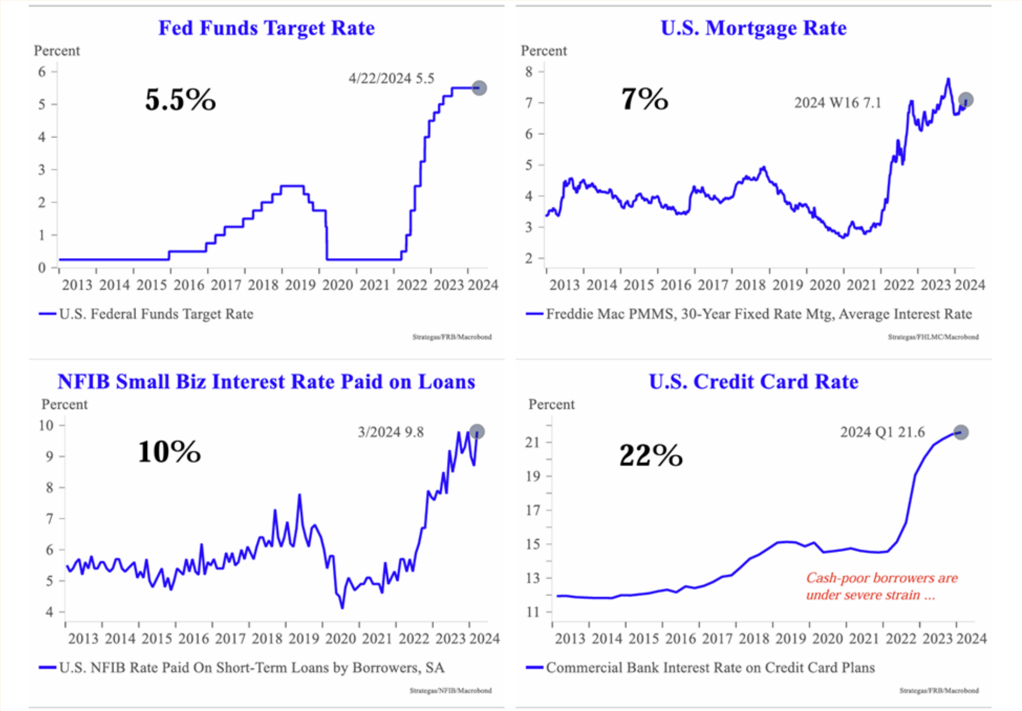
Source: Strategas; As of 4.30.24

Economic data suggesting stubborn inflation and mixed takes on the overall economy garnered a lot of attention and were the key drivers of this change in Fed expectations. March headline and core CPI came in above expectations, with shelter and other services, aka supercore inflation, remaining stubbornly high. In other releases, the March jobs data was sharply higher than consensus, retail sales were stronger than forecast, and the first read of First Quarter GDP was notably lower than expected. Persistent inflation coupled with signs of slowing economic growth fueled concerns of potential "stagflation". Notably, there remains real worries that the Fed will struggle to get inflation sustainably down to its 2% target and that the easing cycle could be delayed even further with some even speculating about the need for additional rate *hikes*.

This economic and inflation data pushed interest rates higher across the yield curve, with the 10-year Treasury yield jumping 0.36% to close the month at 4.68%. As a result, bonds also fared poorly during the month, with the Bloomberg Aggregate Bond Index falling 2.5%. The below graph demonstrates that despite the significant rise in yields, we remain within the range, albeit at the upper end, of the past 15 years. However, we don't expect rates to fall back to the levels seen prior to the beginning of Fed rate hikes in 2022 and see this move upward as a needed normalization of yields.



Source: J.P. Morgan; As of 4.29.24

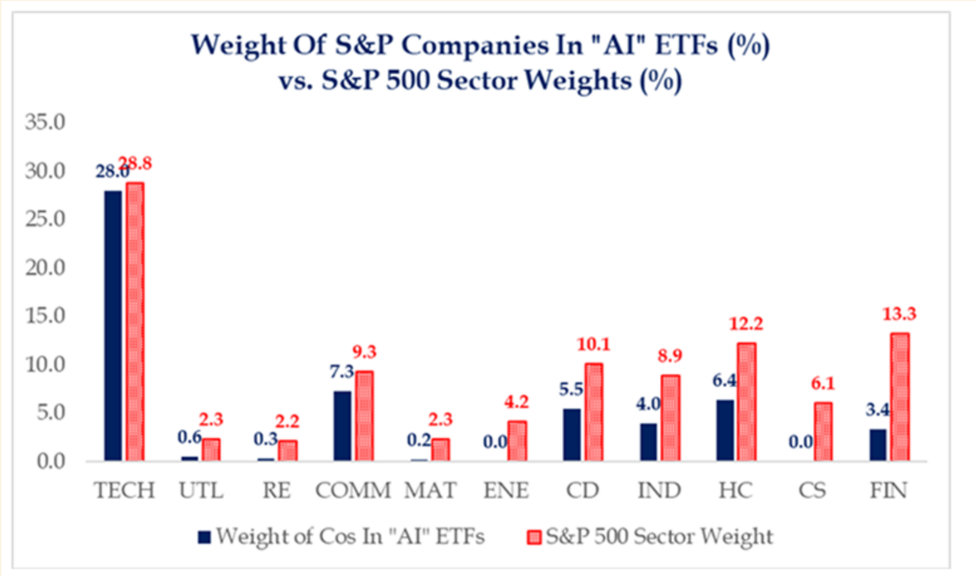


Source: Strategas; As of 4.30.24

This sharp rise in interest rates has had a material effect on consumers and businesses in need of credit. The strong job market and better than normal wage gains have clearly offset the impact of higher rates to date. However, we've also seen the impact of higher rates and greater debt loads resulting in more delinquencies and charge-offs within consumer debt.

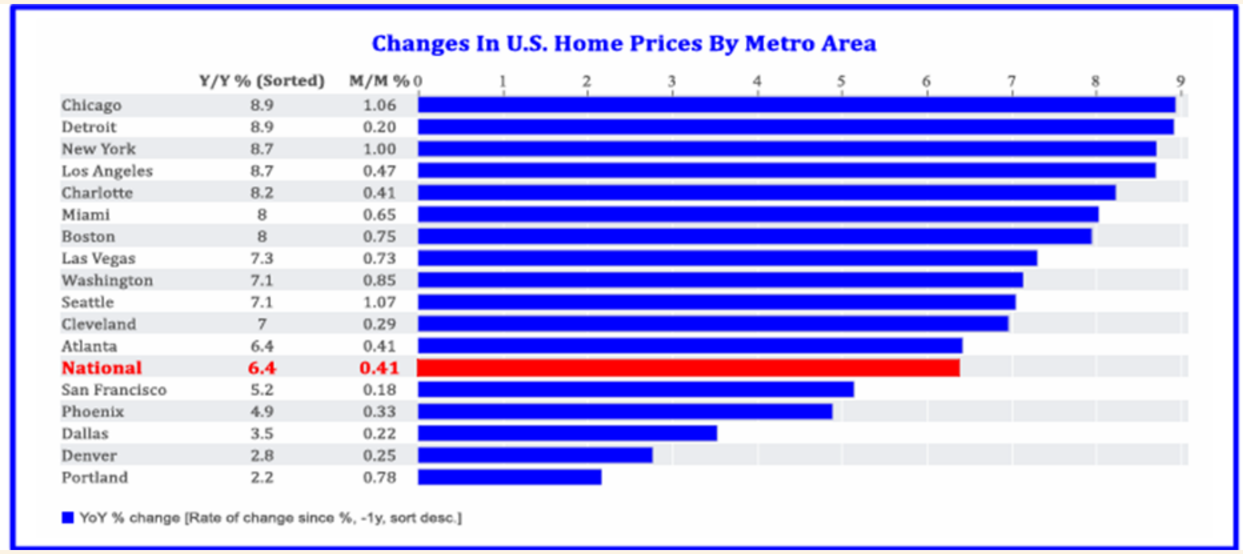
On the bullish front, while geopolitics reared its head with fears of a widening Mideast war, a series of tit-for-tat strikes between Israel and Iran, that fortunately failed to escalate into a larger conflict, appeared to alleviate some of the region's tension.

Also, corporate earnings for Q1 have thus far been coming in generally stronger than expectations, with the blended y/y earnings growth rate at 3.8% vs the 3.4% expected at the end of the quarter; while earnings beat percentages are also running above ten-year averages. Multiple big-tech earnings reports surmounted an elevated bar, with many seeing the Artificial Intelligence (AI) secular growth theme remaining intact. In fact, as much as 55% of companies in the S&P 500 Index are now considered to be AI investments.



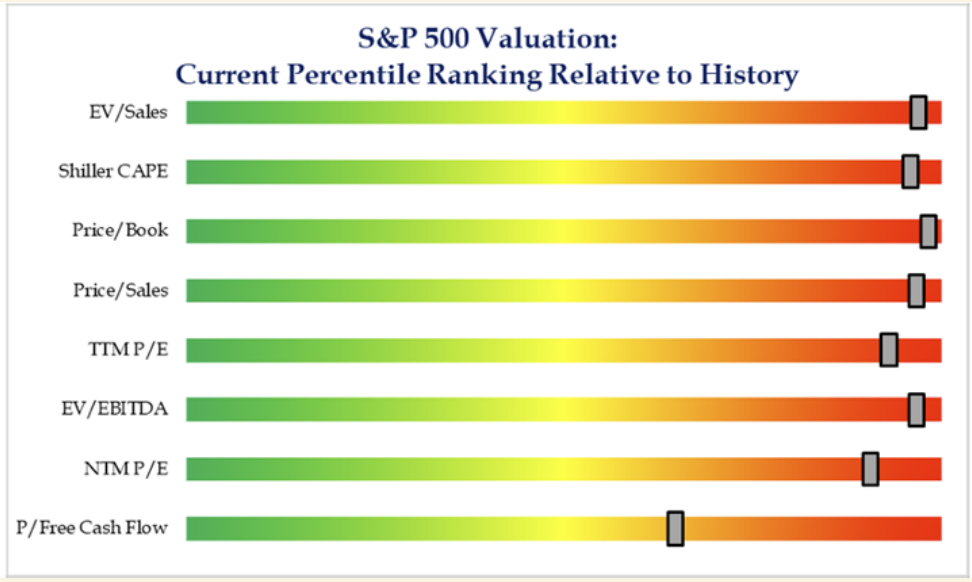
Source: Strategas; As of 4.30.24

During the month there was positive news on the housing front where home prices have clearly recovered from the recent spike in mortgage rates. In fact, prices have risen in all major U.S. markets over the past 12 months.



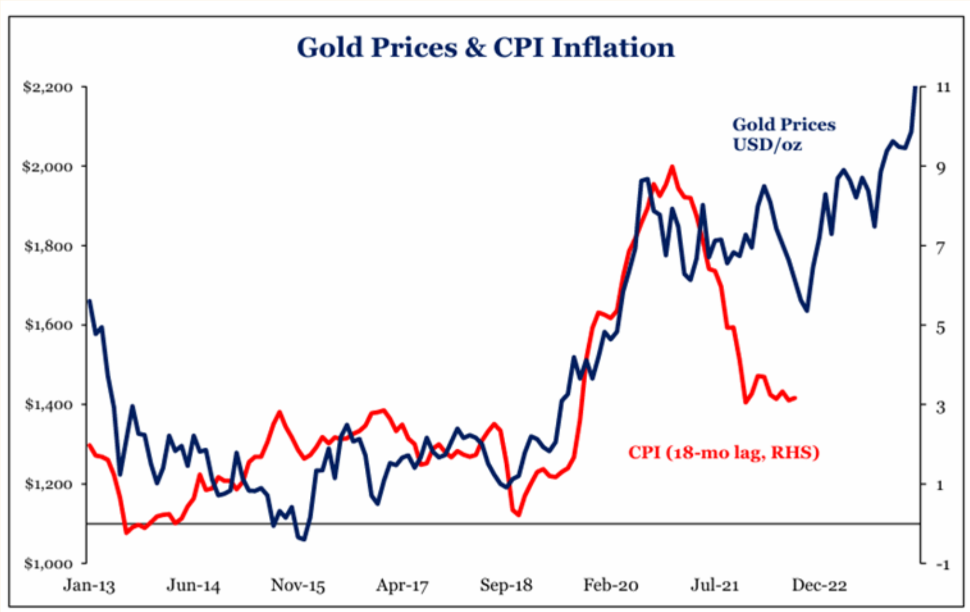
Source: Strategas; As of 4.30.24

The sharp April pullback in the stock market also gave rise to deeply oversold conditions; note that only 44% of S&P 500 constituents remained above their 50-day moving averages near month end (vs ~79% at the end of March). This oversold condition was a key factor in the late month stock market rally. However, valuations remain extended relative to history and solid earnings growth is needed to justify current stock prices.



Source: Strategas; As of 4.30.24

We continue to monitor the performance of Gold, which rose 3% in April, as the yellow metal has historically been a good predictor of future inflation and fiscal instability. With the U.S. government continuing to run historically high non-war and non-recession deficits, and inflation remaining sticky, the move in Gold prices may be telling us something.



Source: Strategas; As of 4.30.24

Despite the downturn in April, which we believe was healthy and necessary, we continue to believe a soft landing is the most likely outcome for the U.S. economy this year. In addition, even if the Fed fails to cut rates this year, a continued strong domestic economy and labor market should be sufficient to drive earnings growth and help push stocks somewhat higher. However, there is still a degree of uncertainty that permeates the markets, including the poor U.S. fiscal situation as well as what is likely to be a very contentious presidential election later this year. As a result, we continue to recommend a well-diversified portfolio of stocks & bonds, U.S. and foreign assets, and both public and private investments.