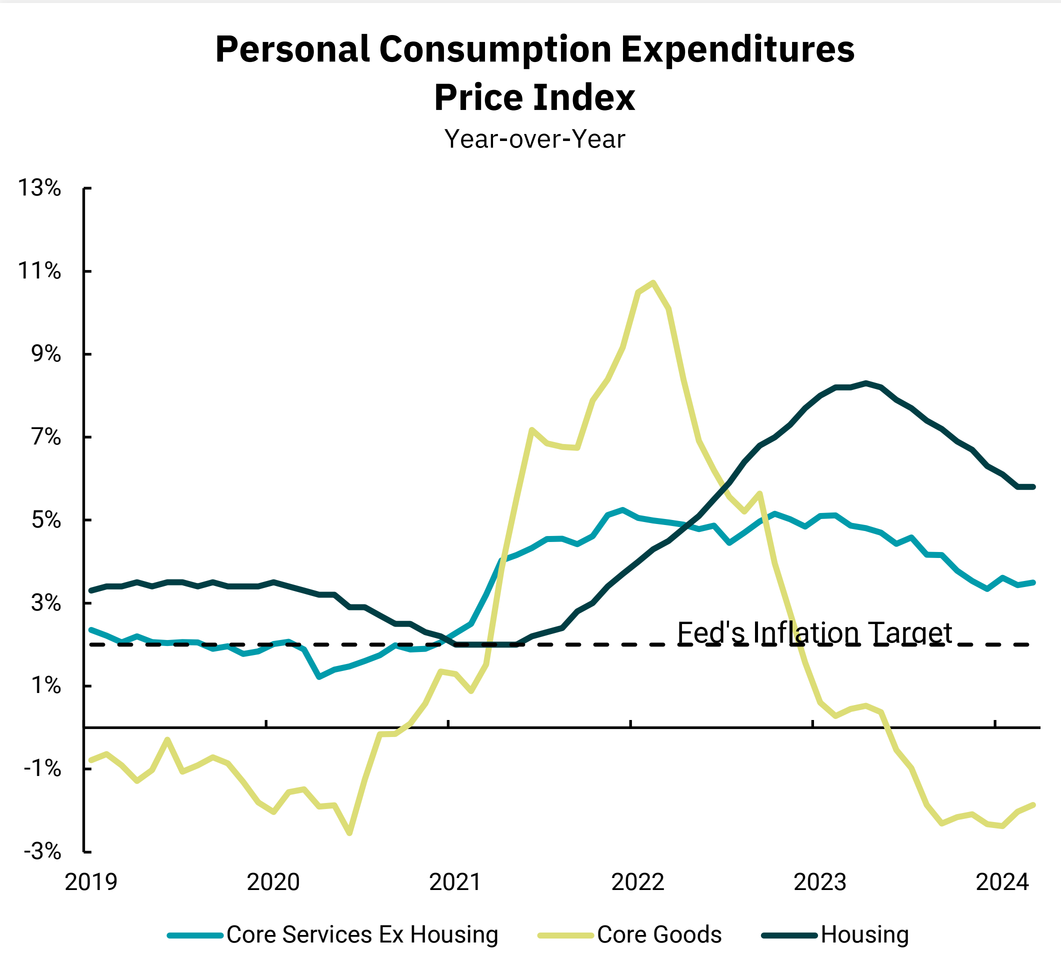
INVESTMENT MANAGEMENT

Weekly market update

Chart of the week (Apr. 26, 2024)



Inflation continues to be the biggest economic story for 2024. While it is true we have seen an "improvement" in inflation, we know this does not mean prices are falling; they are only going up more slowly. Additionally, while we also know the Federal Reserve considers "core" inflation more important from a monetary policy standpoint, most of us, as consumers and business owners, live in a "headline" inflation world.

Recent inflation readings have shown that the path towards the Fed's 2% target might be a bit slower and more difficult than first thought. Among the different measures of inflation, the Personal Consumption Expenditures Price Index (PCE) is favored by the Fed. This week's chart digs into some of the components of PCE as we try to understand what happened with inflation during the pandemic and what that might mean going forward. Looking at inflation before the pandemic, we can see that "core goods" were a consistent source of disinflation. This was a positive result of the globalization of our economy. Since companies could seek out lower-cost producers, that helped keep goods prices low.

The impact of not only the pandemic itself but also the domestic policy response is clear in this week's chart. Initially, as the government showered the economy with stimulus to avoid a long protracted economic decline, consumers could not spend the money as they had. Travel and restaurants were highly restricted, leading consumers to spend their money on goods—and we bought a lot of goods. However, China was pursuing zero-COVID policies which restricted goods production. Meanwhile, the goods that were produced got tangled in dysfunctional supply chains. The result was a massive increase in core goods prices.

Then, as we re-opened the global and domestic economy, consumers could spend money on more experiences, such as travel and eating out. At the same time, supply chains healed. Altogether, this led core goods back to a disinflationary path. However, as inflation surged, workers began demanding more pay, and an under-supplied labor market led to significant wage increases. Pandemic-period low mortgage rates increased demand for housing, which led to significant price increases in a supply-restricted market. In that chart, we can see these two areas were slower to respond to inflation but are also slower to decline. In short, while the more cyclical areas of inflation are acting more "normal," the more secular parts of inflation—specifically, housing as well as core services excluding housing—remain a bit more stubborn.

Our sense is the Fed's next move will be to lower rates, but we must watch the more secular parts of inflation for clues on when the Fed might get more confidence in inflation moving sustainably to their 2% target. It seems the easy moves lower in inflation are behind us.

Source: Bloomberg.

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Commentary (Apr. 26, 2024)

Domestic Equities

- U.S. stocks were positive for the week, fueled by strong big-tech earnings despite a round of firm inflation data.
- The latest S&P Global PMI survey out Tuesday showed the U.S. private sector growing in April, but at a slower pace, an encouraging sign for investors worried the economy is running too hot. Later in the week, lower-than-expected GDP growth and higher-than-expected PCE readings were more ominous for investors.
- Tesla, one of the weakest Mag 7 stocks this year, reported weak earnings, but the stock jumped on plans to ramp up manufacturing of less expensive cars.
- Alphabet and Microsoft had strong earnings reports. Meta, however, fell sharply as the company's heavy spending on AI weighs profits.

Bonds

- U.S. Treasury yields moved higher on rising global inflation data. Additionally, with inflation data remaining sticky, the outlook for Federal Reserve interest-rate cuts was pushed out further, with the first full cut not fully priced in until December, according to Fed Funds futures.
- The broad U.S. investment-grade was negative as measured by the Bloomberg US Aggregate Bond Index, with higher rates weighing on returns. Spread sectors within the index outperformed, with spreads narrowing across both the corporate and securitized markets.
- The Japanese yen fell to a new low against the U.S. dollar after the BOJ left policy rates unchanged on Thursday. At the post-meeting press conference, BOJ Governor Kazuo Ueda was somewhat dismissive of the ongoing rout in the yen, commenting that “monetary policy does not directly target currency rates."

International Equities

- This week, concerns about escalating tensions in the Middle East have eased, allowing investors to shift their focus more on company earnings and digesting the weaker U.S. economic growth data.
- Developed markets rebounded this week due to broad gains across European markets. The Bank of Japan (BOJ) kept the range for its policy rate at 0% to 0.1% and will continue to conduct bond purchases in line with its March decision. This decision helped push the yen to a new 34-year low, stirring up market volatility.
- Emerging markets clawed back some of last week's losses as Asian markets drove index returns higher. South Korea's economy grew 3.4% year-over-year in the first quarter, substantially beating economists' estimates. This report is the country's highest growth rate in over two years, which may dim the prospects for a near-term interest-rate cut.

Economics

- The Bureau of Economic Analysis (BEA) reported that the initial estimate of first-quarter GDP was 1.6% at an annualized rate, with most of the increase coming from consumer spending and residential and non-residential fixed investment. This initial estimate is the lowest since second-quarter 2022 when GDP was -0.6%.
- The BEA also reported personal income rose by $122 billion (+0.51%) and disposable income rose by $104 billion (+0.50%) in March. Consumer spending picked up, rising $172 billion (0.86%) as services and durable and non-durable goods all increased in the month. The personal savings rate declined to 3.2%, down 0.4% from the prior month.
- Personal Consumption Expenditures (PCE) inflation was 0.3% in March and rose 0.2% to 2.7% over the prior 12 months. Core PCE inflation over the prior 12 months was unchanged at 2.8%.

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Weekly Market Update

For Week Ending April 26, 2024

Markets

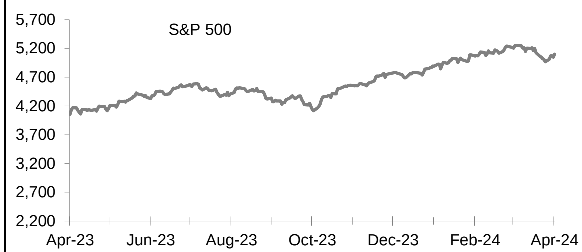
	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	38,239.66	0.7%	2.0%	17.3%
S&P 500 Index	5,099.96	2.7%	7.4%	27.7%
NASDAQ Composite	15,927.90	4.2%	6.3%	35.4%
S&P 400 Midcap Index	2,895.24	2.1%	4.6%	21.2%
S&P 600 Smallcap Index	1,284.03	2.4%	-2.1%	16.9%
MSCI EAFE	7,999.41	1.9%	2.8%	9.4%
MSCI Emerging Markets	546.42	3.8%	2.4%	10.5%
Bloomberg US Agg	2,093.09	-0.1%	-3.2%	-1.3%
Bloomberg Municipal 5 Yr	482.83	-0.3%	-1.2%	1.4%
Bloomberg US Corporate	3,127.12	0.0%	-2.9%	1.2%
Bloomberg Glb Agg ex US Hdg	562.57	-0.2%	-0.4%	4.8%
Bloomberg High Yield	2,490.06	0.6%	0.4%	9.4%
MSCI US REIT Index	1,996.94	1.3%	-7.1%	4.7%
Bloomberg Commodity Index	240.39	0.0%	6.2%	5.0%

	Last Price/Yield	Prior Week	Year End	Year Ago
Key Rates				
Fed Funds Target	5.50%	5.50%	5.50%	5.00%
3-Month Treasury	5.39%	5.37%	5.33%	5.11%
1-Year Treasury	5.19%	5.16%	4.76%	4.66%
2-Year Treasury	4.99%	4.99%	4.25%	3.95%
5-Year Treasury	4.69%	4.67%	3.85%	3.50%
7-Year Treasury	4.68%	4.65%	3.88%	3.47%
10-Year Treasury	4.66%	4.62%	3.88%	3.45%
30-Year Treasury	4.78%	4.71%	4.03%	3.70%
Consumer Rates				
30-Year Mortgage	7.55%	7.45%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	8.75%
SOFR	5.32%	5.31%	5.38%	4.80%
Commodities				
Gold	2,337.96	2,391.93	2,062.98	1,989.04
Crude Oil (WTI)	83.85	82.22	71.65	70.05
Gasoline	3.66	3.68	3.12	3.64
Natural Gas	1.92	1.99	2.33	3.29
Copper	4.57	4.53	3.89	3.88

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.73	20.90	4.80	1.93
S&P 500	20.90	22.86	4.67	1.47
S&P 500 Value	16.25	17.08	2.79	2.40
S&P 500 Growth	26.85	31.15	10.35	0.72
NASDAQ	28.45	34.25	6.19	0.81
S&P Midcap 400	15.74	16.28	2.47	1.89
S&P Smallcap 600	14.23	14.74	1.75	2.77
MSCI EAFE	14.71	13.77	1.81	3.23
MSCI Emerging Markets	12.49	14.45	1.62	2.99

Source: Bloomberg

Equity Style



1 Month*

	Value	Core	Growth
Large	-1.64	-1.91	-2.13
Mid	-2.50	-2.91	-3.28
Small	-2.12	-1.52	-0.94

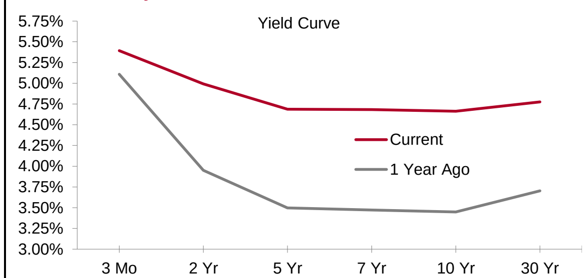
Year to Date*

	Value	Core	Growth
Large	4.20	7.38	10.17
Mid	-1.18	4.55	10.09
Small	-5.20	-2.08	1.05

> 10%
0% - 10%
<0%

*S&P Indices

Fixed Income Style



1 Month*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	-0.33	-1.22	-5.18
Corp	-0.21	-1.15	-3.98
HY	-0.12	-0.80	-3.49

Year to Date*

	Short (1-3 Yrs)	Interm. (1-10 Yrs)	Long (+10 Yrs)
Govt	-0.06	-1.67	-9.16
Corp	0.55	-1.09	-6.49
HY	1.64	0.45	-1.75

> 10%
0% - 10%
<0%

Economic Data

	Last Release	Year Ago
Inflation		
CPI Headline Inflation	3.5%	5.0%
CPI Core Inflation	3.8%	5.6%
Personal Consumption Exp (PCE) Core	2.8%	4.8%
Jobs		
Unemployment Rate (U3)	3.8%	3.5%
Broader Unemployment Rate (U6)	7.3%	6.7%
JOLT Survey (in millions)	8.76	9.85
Jobless Claims (000's)	207	209
Change in Non-Farm Payroll (000's)	303	146
Average Hourly Earnings (Y/Y % Change)	4.1%	4.6%
Consumer & Spending		
Consumer Confidence (Conf Board)	104.7	104.0
Consumer Spending ($ Bil)	19,351	18,283
Consumer Credit ($ Bil)	5,051	4,926
Retail Sales ($ Bil)	708	679
Housing		
Housing Starts (000's)	1,321	1,380
Case-Shiller Home Price Index	310.46	292.81
U.S. Productivity		
Real Gross Domestic Product ($ Bil)	22,769	22,112
Quarter over Quarter Change	1.6%	2.2%
Year Over Year Change	3.0%	1.7%
ISM Manufacturing	50.30	46.50
Capacity Utilization	78.41	79.51
Markit US Composite PMI	50.90	53.40
U.S. General		
Leading Economic Indicators	102.4	108.4
Trade Weighted Dollar Index	123.4	119.4
EUR / USD	1.07	1.10
JPY / USD	158.33	133.67
CAD / USD	0.73	0.73
AUD / USD	0.65	0.66

S&P 500 Sector Returns

	1 Month	YTD
Communication Services	1.30%	17.56%
Energy	3.52%	15.32%
Financials	-1.33%	8.98%
Information Technology	-3.67%	8.54%
Industrials	-1.00%	8.04%
Consumer Staples	0.38%	6.68%
Utilities	4.37%	5.38%
Materials	-1.94%	4.98%
Health Care	-3.93%	3.09%
Consumer Discretionary	-2.75%	1.11%
Real Estate	-4.76%	-8.30%

Disclosures

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