

Weekly market update



Chart of the week (Apr. 19, 2024)



Few interest rates are as important to the global economy as the U.S. Treasury 10-year note. In addition to being a bellwether rate that signals how the overall economy is doing, it serves as the basis for pricing popular 30-year home mortgages. Mortgage rates don't move in tandem with the 10-year Treasury because the spread between the two can change; however, the direction of rate moves is most often the same.

Interestingly, unlike shorter-term rates like the overnight Federal Funds rate, the Fed does not directly control longer-term rates like the 10-year. Where and in which direction shorter-term rates are moving can be a big influence. Still, the 10-year rate is influenced more heavily by factors like longer-term inflation expectations and U.S. and global economic growth projections. This explains why there are times, like now, when the 10-year rate is below shorter-term rates, like Treasury bills and the two-year Treasury note. These periods of "inverted" rates are a strong indicator that the market is anticipating inflation to fall over time and that the Fed will be able to lower shorter term rates below those on longer maturity notes and bonds.

Our chart this week covers 10-year Treasury yields five years back to April 2019, before the onset of the pandemic. Recall that, before the pandemic, we were in the midst of a long period of very low short-term rates as the economy progressed in its long, slow recovery from the Great Recession, and inflation remained at or below the Fed's 2% target. When combined with the Fed's program of quantitative easing, where they were expanding their balance sheet by buying Treasuries and mortgage-backed securities, the 10-year rate and 30-year mortgage rates remained low. The onset of the pandemic only exacerbated the decline in overall rates. The quick recovery, however, aided by generous amounts of fiscal policy support from Congress, led to increasing inflation rates. In response, the Fed quickly increased overnight rates, which led to higher longer-term rates.

As the Fed has reached what we think is the peak in short-term rates, longer-term rates are moving more on the longer-term outlook again. After declining from their highs in November 2023, long-term rates have begun moving higher again as stubborn inflation is making it difficult for the Fed to start lowering their Fed Funds target and making investors re-think how quickly inflation might return to the 2% target. As 10-year rates have moved higher, 30-year mortgage rates have followed suit, recently hitting a new year-to-date high of near 7.5%.

Higher rates make all debt more expensive, but as we continue our progress forward from the pandemic, we will be watching longer term rates closely to try and discern what we might expect from inflation which, in turn, will help guide the Fed as they think about their next monetary policy move. Current rates reflect an outlook for continued economic growth, which is good but also might reflect a bit more stubborn inflation.

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Commentary (Apr. 19, 2024)

Domestic Equities

- U.S. stocks declined this week with the S&P 500 down over 3%. Some year-to-date market leaders fell the most, with the tech-heavy NASDAQ 100 Composite down over 5%.
- Fading expectations for rate cuts and escalating conflict in the Middle East drove stocks lower. Investors fear a broader war would disrupt oil supplies, pushing oil prices higher and keeping inflation elevated.
- Netflix stock fell after the company reported good quarterly results but a weak outlook for the rest of the year.
- Server maker Super Micro Computer is down about 25% this month. The stock was poised for a correction after tripling in price this year and being added to the S&P 500 Index last month.
- American Express had a solid earnings report with better-than-expected profits and increasing card signups driving the stock higher.

Bonds

- U.S. Treasury yields continue to move higher on positive retail sales and employment data. Higher-for-longer rhetoric by a string of Federal Reserve officials also put upward pressure on rates. This included Fed Chair Jerome Powell, who commented that it is likely going to take "longer than expected" to cut rates.
- Inflation-Protected Securities continued to outperform nominal U.S. Treasuries, with breakevens making new highs this week.
- Credit spreads were marginally higher this week following the sell-off in U.S. equity markets.
- S&P downgraded Israel's sovereign credit score from AA to A+ on growing geopolitical risks in the region.

International Equities

- Global investors dissected comments from global central bank officials about the direction of policy rates while grappling with escalating tensions in the Middle East.
- For the third consecutive week, foreign developed markets fell as Japan and European markets struggled to gain traction. Canadian inflation rose 2.9% over the last year, but with core inflation trending lower, there is renewed optimism that the Bank of Canada may cut rates in June.
- Emerging markets fell this week, with losses across key Asian and Latin American markets. Weakness in financials and Asian technology stocks led the index lower for the week. China's economy grew by an annualized 5.3% in the first quarter, exceeding expectations, which could shift sentiment that the world's second-largest economy might be slowly improving.

Economics

- The Census Bureau reported monthly retail sales for March rose 0.7%, totaling \$710 billion, well above estimates. The increase was primarily led by gasoline stations and non-store retailers. Over the prior year, retail sales have increased 3.6%, primarily due to non-store retailers (+11.3%) and food service and drinking places (+6.5%).
- The Federal Reserve reported industrial production increased 0.4% in March as output increased 0.5% and capacity utilization increased to 78.4%.
- The Department of Labor reported initial claims for unemployment insurance were unchanged for the week ending April 13, totaling 212,000. Continuing claims were 1.8 million for the week ending April 6. Both have been tightly range-bound over the prior six months.
- Consumer spending and personal income will be released on Friday.

Weekly Market Update

For Week Ending April 19, 2024

Markets

	Last Price	Change From Prior Week	Change From Year End	Change From Year Ago
Capital Markets				
Dow Jones Industrial Avg	37,986.40	0.0%	1.4%	14.5%
S&P 500 Index	4,967.23	-3.0%	4.6%	21.4%
NASDAQ Composite	15,282.01	-5.5%	2.0%	26.7%
S&P 400 Midcap Index	2,836.88	-2.2%	2.4%	14.9%
S&P 600 Smallcap Index	1,253.80	-1.3%	-4.4%	9.4%
MSCI EAFE	7,848.39	-2.3%	0.8%	7.1%
MSCI Emerging Markets	526.57	-3.6%	-1.4%	4.1%
Bloomberg US Agg	2,094.67	-0.6%	-3.1%	-0.2%
Bloomberg Municipal 5 Yr	484.07	-0.2%	-1.0%	1.7%
Bloomberg US Corporate	3,126.23	-0.7%	-2.9%	2.1%
Bloomberg Glb Agg ex US Hdg	563.97	-0.3%	-0.2%	5.7%
Bloomberg High Yield	2,475.23	-0.6%	-0.2%	8.7%
MSCI US REIT Index	1,970.48	-3.0%	-8.3%	0.8%
Bloomberg Commodity Index	240.47	0.2%	6.2%	1.3%

	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	5.37%	5.38%	5.33%	5.09%
1-Year Treasury	5.16%	5.13%	4.76%	4.79%
2-Year Treasury	4.99%	4.90%	4.25%	4.24%
5-Year Treasury	4.67%	4.56%	3.85%	3.70%
7-Year Treasury	4.65%	4.55%	3.88%	3.64%
10-Year Treasury	4.62%	4.52%	3.88%	3.59%
30-Year Treasury	4.71%	4.63%	4.03%	3.79%

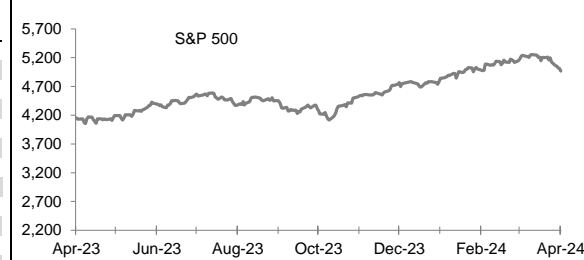
	Last Price/Yield	Prior Week	Year End	Year Ago
Consumer Rates				
30-Year Mortgage	7.45%	7.36%	6.99%	5.83%
Prime Rate	9.25%	9.25%	9.25%	8.75%
SOFR	5.31%	5.31%	5.38%	4.80%

	Last Price	Prior Week	Year End	Year Ago
Commodities				
Gold	2,391.93	2,344.37	2,062.98	1,994.93
Crude Oil (WTI)	83.14	85.66	71.65	73.69
Gasoline	3.68	3.63	3.12	3.69
Natural Gas	1.75	1.77	2.33	3.11
Copper	4.53	4.29	3.89	4.08

	P/E Forward	P/E Trailing	Price to Book	Current Div Yield
Index Characteristics				
Dow Jones Industrial Avg	18.24	20.76	4.77	1.95
S&P 500	20.72	22.26	4.55	1.51
S&P 500 Value	16.50	16.75	2.73	2.44
S&P 500 Growth	26.43	31.22	10.37	0.71
NASDAQ	26.99	32.81	5.93	0.83
S&P Midcap 400	16.09	15.95	2.42	1.91
S&P Smallcap 600	15.25	14.38	1.70	2.71
MSCI EAFE	14.02	13.65	1.79	3.26
MSCI Emerging Markets	12.36	14.30	1.61	3.03

Source: Bloomberg

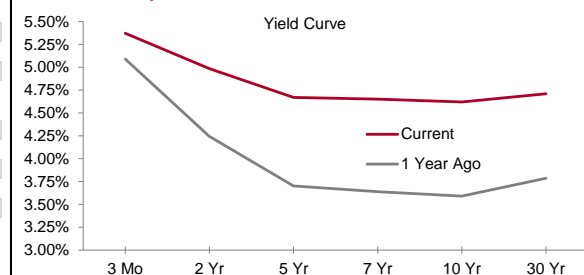
Equity Style



1 Month*			Year to Date*		
Value	Core	Growth	Value	Core	Growth
Large					
-2.19	-3.98	-5.45	3.16	4.58	5.84
Mid					
-2.65	-3.39	-4.07	-2.70	2.43	7.38
Small					
-2.51	-2.74	-2.96	-6.75	-4.39	-2.04

*S&P Indices

Fixed Income Style



1 Month*			Year to Date*		
Short	Interm.	Long	Short	Interm.	Long
Govt					
-0.14	-0.80	-3.48	-0.10	-1.61	-8.40
Corp					
-0.15	-0.97	-3.22	0.42	-1.23	-6.29
HY					
-0.35	-1.18	-2.79	1.29	-0.17	-1.45

1-3 Yrs 1-10 Yrs +10 Yrs

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%

	Last Release	Year Ago
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)	212	224
Change in Non-Farm Payroll (000's)	303	146
Average Hourly Earnings (Y/Y % Change)	4.1%	4.6%

	Last Release	Year Ago
Consumer & Spending		
Consumer Confidence (Conf Board)	104.7	104.0
Consumer Spending (\$ Bil)	19,189	18,297
Consumer Credit (\$ Bil)	5,051	4,926
Retail Sales (\$ Bil)	710	682

	Last Release	Year Ago
Housing		
Housing Starts (000's)	1,321	1,380
Case-Shiller Home Price Index	310.46	292.81

	Last Release	Year Ago
U.S. Productivity		
Real Gross Domestic Product (\$ Bil)	22,679	21,990
Quarter over Quarter Change	3.4%	2.6%
Year Over Year Change	3.1%	0.7%
ISM Manufacturing	50.30	46.50
Capacity Utilization	78.41	79.51
Markit US Composite PMI	52.10	52.30

	Last Release	Year Ago
U.S. General		
Leading Economic Indicators	102.4	108.4
Trade Weighted Dollar Index	122.7	119.1
EUR / USD	1.07	1.10
JPY / USD	154.64	134.72
CAD / USD	0.73	0.74
AUD / USD	0.64	0.67

S&P 500 Sector Returns

	1 Month	YTD
Energy	3.17%	14.47%
Communication Services	-0.02%	14.44%
Financials	-1.61%	7.83%
Industrials	-1.98%	6.10%
Consumer Staples	-1.52%	5.04%
Materials	-1.89%	4.29%
Utilities	2.56%	4.16%
Information Technology	-7.92%	3.26%
Health Care	-4.71%	2.33%
Consumer Discretionary	-5.09%	-2.32%
Real Estate	-7.41%	-9.75%

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