May Market Update

Hope you are doing well! April was a mostly quiet month, with choppy trading across U.S. equity markets. During the month, the overarching narrative among talking heads seemed to be declining volatility and an “impending recession” forecast for later in the year.

Tallying the month of April, the S&P 500 rose by 1.46%, the Nasdaq 100 increased by 0.49%, and the Dow Jones Industrial Average climbed by 2.48%.

Strong Earnings

Mostly strong earnings from tech companies buoyed the markets towards the end of the month. Revenues have been impressive, too. As of April 28th, 74% of S&P 500 companies reported actual revenues above estimates.

This revenue data is above the five-year average of 69% and the 10-year average of 63%. Not bad at all!

Positive earnings from Meta Platforms coincided with a declining GDP metric on the last Thursday of the month and provided a backdrop for stocks to rise at month’s end.

GDP Miss

A highly anticipated gauge of the economy, first-quarter gross domestic product (GDP) missed mightily, showing a 1.1% growth rate versus expectations for 2.0%.

U.S. equities loved the signs of a slowing economy, which could signal that Federal Reserve rate hikes are having the intended impact. The S&P 500 and Dow Jones Industrial Average posted their largest daily gains since January on the day GDP data was released.

Monthly Inflation Update

We continue to see some signs of mixed and easing inflation data.

Consumer: March headline Consumer Price Index (CPI) data, released mid-month, showed a 0.1% monthly rise and a 5% rise year-over-year—both below estimates.

March’s Core Personal Consumption Expenditures (PCE) figure, the Fed’s preferred inflation indicator, came in at expectations but remains stubbornly high. Data showed a 0.3% increase month over month and a 4.6% year-over-year increase. Consumer spending also stalled, according to the data.

Signs of annual inflation having peaked are evident, but it is more about the road back to the Fed's 2% target.

Wholesale: The Producer Price Index (PPI) fell 0.5% in March from the previous month, below the 0.0% estimate by economists polled by Reuters and the biggest drop in 3 years.

On an annual basis, wholesale prices are up 2.7% versus February's reading of 4.9%. This reading is the lowest annual rate of wholesale inflation since January 2021.

Treasuries

Tens: Benchmark 10-year note yields were little changed in April, settling near 3.453% to close out the month versus the previous monthly close near 3.493%.

Twos: Shorter-duration notes were also little changed on a monthly basis, with the 2-year note yield ending April near 4.008% versus March's monthly settlement value near 4.029%.

Labor Market

Nonfarm payrolls grew by 236,000 in March, close to the final expectations of 238,000 by Dow Jones economists.

While near expectations, the number is much lower than the upwardly revised 326,000 additions in February and the smallest gain since December 2020. The data could represent an early sign of slowing in the hot labor market.

And while jobs added may have begun to cool, labor costs remain stubbornly high. On the last trading day of April, the Employment Cost Index showed that workers were compensated 1.2% more in Q1 versus the prior quarter against expectations of 1.1%.

Much like inflation data, there are some mixed signals across the labor market, but this makes sense as it will most likely not be a straight decline to the Fed's target of 2% inflation. Instead, we can expect more of a lengthy and bumpy ride.

No April Showers

April was a quiet trading month, with narrow price ranges in the major U.S. equity indexes. While the talking heads on television seemingly endlessly discussed an impending recession, the stock market bulls won at month's end.

This brings to mind a clear benefit of being a long-term investor—not getting caught up emotionally in a potentially incorrect or emotional short-term narrative. Staying the course is often your best bet.

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