April Market Update

Stock index investors were in command throughout March as the recent rally continued and showed signs of broadening to other sectors. As a bonus, the recent stock index rally was fueled further by a Federal Reserve (Fed) that sounded dovish, or accommodating, on interest rate policy.

With the major U.S. equity market indexes continuing their runs since November, now is the perfect time to inform you about the latest developments over the course of the last month.

Major Stock Indexes

The recent stock market rally started to broaden out in recent days — great news for long-term investors. Strength was seen outside of megacap tech stocks, with S&P 500 sectors like energy and perhaps under loved financials, utilities, and materials posting solid gains in March as consumer discretionary stocks lagged.

Market bulls were also cheering the prospects of a more accommodating and rate-cutting Fed later this year, and they were bolstered by Federal Reserve Chair Jerome Powell's comments on monetary policy, further catalyzing gains for the month.

For the month of March, the S&P 500 added 3.10%, the Nasdaq 100 tacked on 1.17%, and the Dow Jones Industrial Average rose by 2.08%.

Fed Rate Decision & Outlook

The Fed left interest rates unchanged at its March policy meeting, in line with market expectations.

More important than the rate decision itself: the Fed's tone on the future direction of monetary policy, inflation, and interest rates. Powell's post-meeting commentary was deemed dovish by the market at large.

Market reaction to the Fed commentary during the post-meeting press conference was bullish and was on full display, as all three major stock indices jumped to record-high levels.

The Fed will continue to monitor inflation readings to ensure they move towards the 2% Fed target as the markets digest recent warmer-than-expected inflation readings (PPI & CPI).

According to the Fed's Summary of Economic Projections (SEP), three 25-basis point rate cuts are now expected for 2024.

Warmer U.S. Inflation Readings

The overall trend for inflation saw some heating up in March, as both consumer and wholesale pricing came in a bit hot.

Consumer Price Index: The most recent CPI data released in March (February data) showed inflation running hotter than analyst expectations. The report revealed a 0.4% increase in monthly CPI for February and a 3.2% increase compared to the same period last year.

Dow Jones estimates had predicted a 0.4% monthly gain in February and a 3.1% year-over-year increase.

Prices of goods and services are still elevated — we don't need government data to let us know. But most analysts are looking for the overall inflation-cooling trend to continue.

Producer Price Index

Wholesale pricing rose 0.6% in February versus Dow Jones economist estimates of 0.3%.

That's double the forecast and gave market participants food for thought. Year over year, prices increased by 1.6%, the biggest move since September 2023.

Core PPI, which excludes food and energy, increased by 0.3% for the month, compared to the estimated 0.2% rise.

Stock indexes reacted to the downside for a day or two upon the data release but found their footing quickly.

Personal Consumption Expenditures (PCE): The freshest piece of inflation data for March came out on Good Friday, with the U.S. markets closed in observance of Good Friday.

Data showed pricing rising in line with expectations, with prices rising 2.8% annually and 0.3% versus one month ago. This data should keep expectations for a Fed rate cut in June in play.

Global Inflation Easing Signs

So, why doesn't the stock market get spooked when inflation data comes out hot like it did in March? Well, that is open to interpretation.

We do know that inflation metrics are lagging indicators; they measure the previous month, and markets are always looking ahead.

Looking at Europe, we see that their inflation metrics have recently fallen from an annual rate of 10.6% at its peak to just 2.6% in a recent reading. Compared to the U.S.'s peak year-over-year inflation of 9.1% (June 2022), the eurozone has experienced even more inflation volatility.

Canada's inflation cooled also, down to 2.8% in February. Other countries are showing signs of inflation easing.

Strong Labor Market Data

The jobs report released on March 8th showed more job gains, with 275,000 jobs created vs. 198,000 forecasted. Unemployment rose to 3.9% versus 3.7% forecasted.

"There's no new thing under the sun between this report and last month's report. It doesn't really give us a whole lot of information, other than we can qualitatively say, we're still growing jobs at a good pace and wages are still a little bit higher than we would like," said Dan North, senior economist at Allianz Trade Americas.

Treasury Yields Steady/Quiet in March

Treasury yields were steady or slightly lower in March versus February, with the widely monitored 10-year Treasury Note Yield closing the month near 4.205%. This was about 4.5 basis points lower than February's closing level near 4.251%.

Market participants are figuring out the probabilities for Fed rate cuts, with data to close March showing a 95.8% probability of the Fed leaving rates unchanged at the May 1st Fed meeting and a 63.6% chance of a rate cut at the following meeting on June 12th.

The steadiness in rates during March was welcome news for mortgage borrowing activity, with the average 30-year fixed mortgage closing the month of March under the psychologically important 7% level. The quiet yields are also a supportive backdrop for long-term investors in U.S. equities.

Mixed Consumer Data

The resilient American consumer marches on! After enduring two years of escalating prices, the U.S. consumer finds a way. For March, consumer health metrics were on the mixed side.

Retail sales rebounded from January's levels and grew by 0.6% in February, but they were below economist expectations.

The University of Michigan's Consumer Sentiment survey also fell short of expectations in the initial release. However, the final version of the consumer sentiment data released on the last trading day of the month showed a rise in consumer sentiment.

So, it was a mixed bag for the consumer last month. Unsurprisingly, consumer debt has piled up as inflation has worn on, with data showing a smooth $1 trillion in interest payments in one quarter alone.

That said, while many data releases show a strong consumer, let's remember that the consumer is loaded up with debt and is paying interest on that debt at a rather elevated rate.

The Takeaway

March featured a continuation of the rally that started in November, which began with excitement surrounding AI, steadier interest rates, solid economic data, and a Fed that should be supportive going forward.

Now, the rally appears to be showing signs of broadening to other sectors, which is a healthy signal. This is one reason that a diversified portfolio is a must.

The market expects three rate cuts in 2024 beginning, as the Fed wants to see further evidence that inflation has cooled sufficiently before cutting rates. The data suggests three cuts in 2024, which is supportive of that expectation.

With that monthly overview noted, if you have been considering your options in the financial markets or have questions, please feel free to reach out to your advisor anytime.

Precision Financial Services, Inc.
350 US Highway 46
Mine Hill, NJ 07803

Tel: 973-927-6300
Fax: 973-927-7190
www.precisionfinancial.com