May Market Update

After a strong March, major U.S. equity indexes retreated in April. Rising Treasury yields were a prevalent theme for much of the month, while attention turned to corporate earnings and the Fed meeting at the end of the month.

Here is the tale of the tape for the month of April: The S&P 500 ($SPX) declined by 4.16%, the Nasdaq 100 fell by 4.46% ($NDX), and the Dow Jones Industrial Average ($DJI) decreased by 5.00%.

S&P 500 Makes It 5 for 6

U.S. stock indexes have been good to investors in 2024, even with several headwinds in play.

So, a mild breather in April is OK, with the S&P 500 and Nasdaq 100 breaking five-month winning streaks and having their first down month since last October. Markets don't go up or down in a straight line, but we will take the five-month streak.

Inflation Data Mixed

The most recent monthly inflation data metrics implied a mixed picture. Here's the latest.

Consumer Price Index (CPI): March's CPI increased by 0.4% month-over-month and 3.5% year-over-year (YoY), hotter than expected. The figures exceeded Dow Jones' survey expectations of 0.3% and 3.4%, respectively.

The prior month's CPI reading was 3.2% YoY. Its rise to 3.5% was significant, causing broader markets to fall; the S&P 500 lost about 1%, and the Dow lost 422 points on the day of the data release. Inflation certainly has not disappeared.

This most recent release marks three consecutive months of monthly 0.4% increases in CPI. CPI is still running hot.

The report highlights some shocking figures regarding car insurance costs. Car insurance has increased by 2.7% month-over-month and 22.2% year-over-year. Similarly, shelter prices have increased by 5.7% from last year, and transportation costs have also risen. In plain English, everything seems to be getting more expensive. Here is a handy chart showing the latest inflation data on various goods and services.

Producer Price Index (PPI): Post-CPI data, markets experienced a bit of relief after the release of March's Producer Price Index (PPI) data. The PPI data showed that wholesale pricing increased by 0.2% on a monthly basis, which was slightly lower than the expected increase of 0.3%. It was a welcome change after February's report showed a significant increase of 0.6%.

However, on an annualized basis, March's PPI rose by 2.1%, which is the highest level since April 2023. Despite this, the S&P 500 managed to recover around 80% of its losses from the previous day's Consumer Price Index (CPI) data, closing up 0.8% on the day of the PPI data release.

Although the PPI data was not bad, the market's reaction seemed to be a bit too enthusiastic. Buyers came into a few tech stocks, allowing the Nasdaq Composite to reach a new record high. Amazon also reached a new all-time high on the same day.

There are different ways to analyze inflation data, such as excluding shelter and autos. However, many analysts will focus on the fact that inflation data has been firming over the past three months.

Federal Reserve Meeting Results

As expected, the Federal Reserve (Fed) left interest rates unchanged at the May 1st meeting, keeping the federal funds rate at 5.25% - 5.50%.

The Fed statement said, “The Committee does not expect it will be appropriate to reduce the target range until it has gained greater confidence that inflation is moving sustainably toward 2 percent.”

Well, we haven’t gotten that type of inflation signal yet, as recent inflation metrics have run between 2.8% and 3.5% (Core PCE/CPI). So, rate cut hopes have been further suppressed based on the recent commentary.

Federal Reserve Chair Jerome Powell also hinted that a rate hike would not be the next move from the central bank.

Market Reaction

The market reaction to the Fed commentary and subsequent Q&A session on May 1st was noteworthy and perhaps slightly ominous.

Initially, upon the release of the Fed statement, major U.S. equity indexes rose steadily after being quiet for most of the day. The buying continued when Powell said it was unlikely that the next move would be a rate hike.

But around 3 p.m., the buyers dried up, and the S&P 500 gave back all the daily gains on the Fed statement and press conference and finished in the red for the day.

Should we blame the algorithms? Perhaps traders were not too happy about the Fed's continued message of "higher for longer" with no rate cuts in sight.

Markets will be looking to the next batches of inflation data to find reasons to cheer.

Treasuries / Interest Rates

While the Fed left the overnight Federal Funds rate unchanged, interest rates continued to rise in open markets during April, as traders and investors continued to reduce Fed rate cut probabilities for this year.

Higher yields were prevalent across the yield curve. 2-year yields crossed and settled above the 5% level to end the month, closing April near 5.039%.10-year notes fared similarly, closing the month of April near 4.685%, a gain of around 48 basis points for the month.

An everyday impact of higher yields is higher interest rates, namely for mortgage loans. As such, 30-year mortgage rates rose in April, too — with the average 30-year mortgage rate at 7.41% as of May 2nd, according to Mortgage News Daily.

Headline Labor Market Data Strong

March top-line labor market data, released in April, was strong once again, with 303,000 jobs created versus Dow Jones estimates for 200,000.

In March, the number of part-time jobs increased by 525,000 — significantly higher than the 107,000 increase recorded in February. This data suggests that some people may be shifting from full-time jobs and being forced to take lower-paying part-time work. In addition, many Americans could be taking up extra "side" or gig jobs to cope with the ongoing high cost of living.

Some analysts pointed out that the number of people working full-time jobs has significantly decreased in the past year. This decline could be attributed to the changing nature of work in our society, such as the rise of remote work and multiple part-time gigs. The work environment has been considerably transformed, and examining the payroll report reveals this transformation.

Cryptocurrency Falls

In the final week of April and heading into the May 1st Fed meeting, cryptocurrency markets fell, with the largest cryptocurrency by market cap, Bitcoin, falling below the $60,000 level.

For the month of April, Bitcoin fell close to 16%, as investors seemed to look for an off-ramp before the Fed meeting.

Multiple factors can be attributed to BTC's decline in April. Notably, the outlook for the Fed to cut rates has been decreasing while interest rates have risen in the open markets, reducing the appeal of Bitcoin to many investors.

The ten largest U.S. spot bitcoin ETFs experienced significant capital outflows in the final week of April.

Earnings Explosion

It's a busy earnings season, and there is no shortage of earnings volatility in individual stocks.

Megacap tech earnings have been robust overall thus far, with Alphabet (Google) and Microsoft posting better-than-expected results for the first quarter, featuring heightened AI spending.

For Alphabet, results beat analysts' estimates with rising profits in its cloud division. Plus, the first-ever dividend was announced: 20 cents per share to be paid on June 17th to stockholders of record as of June 10th.

Tesla showed investors weak quarterly numbers but improved guidance, sending the stock on a run post-earnings announcement.

Meta Platforms (Facebook) shares were punished on AI spending commentary and data, even as the quarterly numbers beat expectations and the company experienced 27% year-over-year revenue growth.

Putting it Together

So, what to make of the current picture of the economy? It's macroeconomics versus corporate earnings right now. Inflation has persisted, and rates have risen — a tough environment for many Americans. The Fed is still in a pickle and walking a fine line.

The AI spending theme should continue to support fund flows into megacap tech, while smaller market capitalization counterparts may continue to lag due to higher costs of capital.

As always, keeping you informed is a top priority. When developments occur, we will keep you apprised of them.

In the meantime, if you would like to discuss the current market outlook and explore investment strategies based on your objectives, please don't hesitate to contact your advisor directly.

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