June Market Update

Stock index investors were in command throughout May as the major stock indexes resumed their rallies after consolidating in April.

With the major U.S. equity market indexes resuming runs that began back in November, now is the perfect time to inform you about the latest developments over the course of last month. Below is the latest.

S&P 500: Rally Resumption

The broadest measure of the U.S. economy clawed back all of the consolidation from April and closed at a fresh monthly closing high in May, marking six out of the last seven months in the green. Overall, the S&P 500 had its best May since 2009. Long-term investors will take that to the bank!

For the month of May, the S&P 500 added 4.80%, the Nasdaq 100 tacked on 6.28%, and the Dow Jones Industrial Average was higher by 2.30%.

Tech Leads S&P 500

Tech led in May, with Microsoft, Apple, Nvidia, Alphabet, Amazon, and Meta accounting for 76% of the index's total gains of the month.

Specific strength was seen in information technology towards the end of the month. Overall, the information technology sector showed investors a very solid earnings season, as earnings growth was the third highest among the 11 S&P 500 sectors.

The S&P 500 information technology sector is led by chip giant Nvidia Corp, Broadcom, Fair Isaac and Company, Super Micro Computer, and other tech powerhouses.

Fed Meeting, Reaction, & Outlook

The Federal Reserve kept the federal funds rate unchanged at 5.25% - 5.50% during the May 1st meeting, as expected.

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.”

As traders and money managers digested the May 1st mood of the Fed, the S&P 500 was slightly lower at the day’s close. But markets like catalysts, and the Fed meeting turned out to be the low for the S&P 500 for the month.

Powell also hinted that a rate hike would not be the next move from the central bank. Markets liked hearing that! But what would the tone of the Fed and investors be as the month progressed?

Earnings Surprises

After the Fed meeting catalyzed a May 1st low in the S&P 500 for the month, attention shifted back to Q1 earnings season — and for good reason.

As of May 31st, with 98% of S&P 500 companies reporting earnings results 78% of S&P 500 companies have reported a positive earnings per share (EPS) surprise, and 61% of S&P 500 companies have reported a positive revenue surprise.

First quarter S&P 500 earnings growth was heavily concentrated among five names: NVIDIA, Alphabet, Amazon.com, Meta Platforms, and Microsoft.

The solid Q1 earnings season provided a boost to the overall backdrop in equities as markets battle continued inflation and elevated interest rates.

Consumer Moods

According to the University of Michigan Surveys of Consumers, inflation concerns have caught up with consumers.

The most recent survey indicated that consumer sentiment dropped by about 13% in May compared to April, following three months of minimal change.

The result may have been fully expected by many, as inflation continues to be sticky and affects Americans.

But, later in the month, the next set of consumer tracking data, showing consumer confidence, told a different story. The data, closely watched after the previous sour consumer number, showed consumer confidence improving for the first time in four months.

The index increased to 102.0 this month from April's upwardly revised 97.5, surpassing the forecast of 96.0.

It seems we are seeing some mixed messaging on the consumer.

Mixed Inflation Data, Markets Cheer

Consumer Price Index (CPI): Speaking of the consumer, all eyes were peeled on the heavily anticipated monthly CPI data.

Consumer inflation in April eased, with the monthly CPI data showing a 0.3% increase from March, slightly lower than the 0.4% Dow Jones estimate. Year-over-year, data revealed a 3.4% increase, in line with estimates.

Core CPI (which excludes more volatile food and energy prices) was very encouraging, showing a year-over-year 3.6% increase, the lowest reading since April 2021. It's safe to say that market bulls loved this aspect of the report!

The markets responded positively to the consumer inflation data, with the S&P 500 reaching a record-high close on the same day. What more could we ask for? Treasury yields also traded lower throughout the day after the data release.

Producer Price Index (PPI): The day before CPI data was released, April PPI data showed wholesale pricing rose by 0.5% in April, surpassing the 0.2% estimate from Dow Jones. Yearly data revealed a 2.2% increase, marking the largest gain in a year.

Similar to CPI, the rise in overall producer pricing was influenced by services pricing, which saw a 0.6% monthly gain and accounted for about three-quarters of the overall wholesale pricing increase.

Core PPI, which excludes volatile food and energy, also rose by 0.5%, exceeding the estimated 0.2% increase.

Following the data release, stock index futures remained nearly flat, causing some uneasiness in anticipation of the next day’s CPI data. However, stocks eventually rose on the day, setting the stage for the CPI report the following day, which ultimately met the expectations of equity market bulls.

Personal Consumption Expenditures (PCE): Rounding out May’s inflation data releases, the freshest piece of inflation data was delivered on the final trading day of May in the form of Core PCE.

The Fed’s favorite inflation gauge cooled in April, with Core Personal Consumption Expenditures showing a rise of 0.2% in April, versus estimates of 0.3%. This is what folks wanted to see. The S&P 500 rallied heavily towards the end of the final trading day of May.

Strong Labor Market Data

The April employment data, released on May 3rd, showed an increase of 175,000 payrolls for the month, falling short of the estimated 240,000. Surprisingly, this was seen as good news, as the first nonfarm payrolls "miss" since November 2023 could strengthen the case for a potential cut in interest rates.

This "bad news is good news" report gave stock market bulls reasons to be optimistic, as there was hope for softer upcoming inflation data. Later in the month, some of those hopes were realized.

The unemployment rate increased slightly to 3.9% from 3.8% in March.

Fed & the Future

The latest data to close May showed a 99.9% probability of the Fed leaving rates unchanged at the June 12th meeting and a 14.5% chance of a rate cut at the following meeting on July 31st.

The highest probability for a first rate cut surrounds the September 18th meeting, with a 53.9% chance of a rate cut at the end of May.

The Takeaway

May featured a resumption of the rally for major stock indexes, solid corporate earnings overall, slightly lower interest rates, varying economic data, and a Fed that should be supportive going forward as long as inflation cooperates.

As June began, the S&P 500 was working off a monster rally on the last day of the month. Was it month-end books squaring or perhaps a sign of what is to come in June? We will find out as the month unfolds.

With that monthly overview noted, if you have questions or needs arise, feel free to reach out to your advisor.

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

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

prohibited. If you have received this message in error, please immediately delete.