

April 2024 Market Commentary

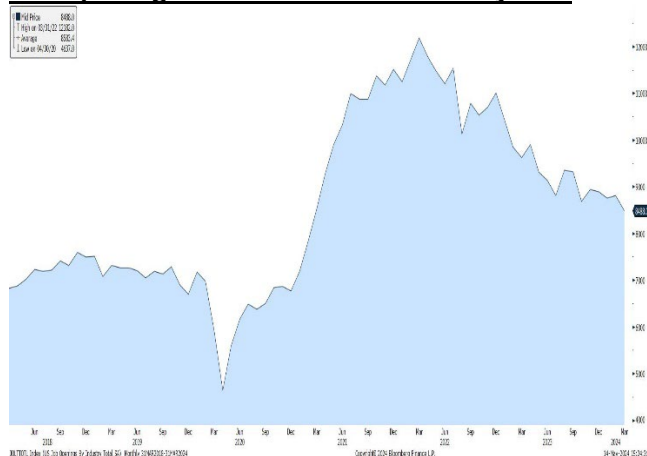
Jed Glick, CFA – Portfolio Manager

May 15, 2024

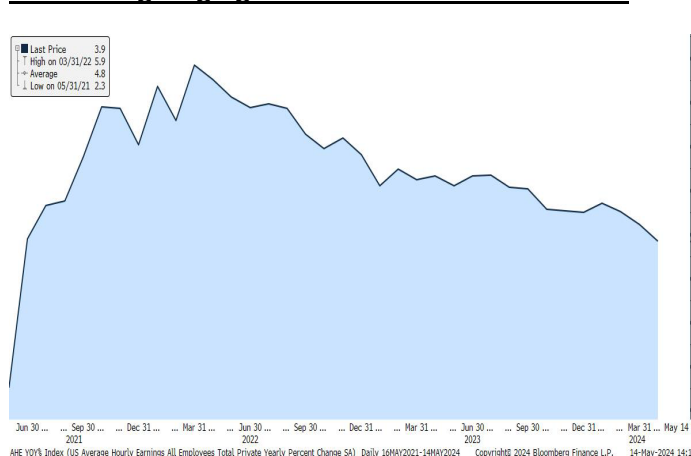
First pullback for stocks after a string of five monthly gains as bond yields rose. After a five-month rally, the S&P 500 valuation looked stretched, trading at nearly 22X earnings at the beginning of the month. Moreover, sentiment readings had turned solidly bullish, leaving little room for error for equities. Given that backdrop, it was not surprising that stocks sold off after another stubbornly elevated inflation reading (the March CPI reading in early April came in at 3.5% on an annual basis) and subsequent push-out of expected interest rate cuts. The S&P 500 fell 4.2% for the month, the NASDAQ dropped 4.4%, and the Dow tumbled 4.9%. With the 2-year Treasury note yield moving back near 5%, interest rate-sensitive areas of the market were hit particularly hard, including small caps (-7%) and real estate (-8.4%).

Labor market front and center. During his last press conference, Fed Chairman Powell seemingly suggested the labor market could increasingly factor into monetary decisions, particularly given the acknowledgment that further progress on inflation is likely to take time. Recent data indicate the labor market remains healthy but is moderating. April's nonfarm payroll report showed the economy added a less-than-expected 175,000 jobs, which was well below the average gain of 276,000 over the first three months of the year and the lowest number since November. Moreover, wage growth eased to 3.9% year-over-year, the slowest increase in nearly two years. Lastly, job openings are also trending lower, heading back to pre-covid levels.

Job openings at lowest level in over 2 years.



Moderating wage growth bodes well for inflation.



First-quarter earnings were solid, but valuations remain elevated. The majority of companies in the S&P 500 index have reported first-quarter earnings, and the results have been solid, with 76% beating expectations. Overall, earnings are up 5.5% on the back of 3.8% revenue growth. Before the start of the earnings season, estimates called for earnings to rise 3.9% from a year earlier. While the quick April pullback helped take some froth out of the market, valuations remain elevated, with the S&P 500 trading back over 21x forward earnings. Accordingly, active management and stock selection will continue to be important to manage the macro cross currents and find opportunities in pockets of the market where valuations are still compelling (e.g., small caps, energy, healthcare). As noted above, we will increasingly be paying attention to the labor market. While inflation may continue to remain elevated (widely understood), further labor market moderation could compel the Fed to reduce rates before inflation hits their 2% target.

As always, we would enjoy hearing from you. Please reach out with any comments or questions.

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