MONTHLY MARKET UPDATE

April 2024

Sticky inflation, worries about global growth momentum, and some routine (overdue?) market consolidation led global equity markets lower in April shortly after hitting record highs in late March. One key driver was a continuation of higher than expected inflation data and tight labor markets which resulted in a "higher for longer" interest rate scenario. Accordingly, the FOMC continued walking back the market's rate cut expectations. The FOMC also conditioned markets for a reduction in the pace of balance sheet runoff which was formally announced in early May taking treasury runoff down to a cap of $25b (from $60b) but leaving reinvestment caps on MBS securities untouched.

The tone of economic data in April remained positive on balance but was more mixed than recent months. The initial estimate of first quarter GDP of 1.6% was notably below the consensus 2.3% expectation. PMI survey data showed the U.S. slowing but still slightly in expansionary territory offset by signs of improvement across developed non-U.S. economies. The closely watched labor market saw payrolls miss to the downside (175k vs 243k) in April for the first time in six months coupled with declining job openings and wage growth data showing a warmer than expected Employment Cost Index (1.2% vs 0.9%). Both CPI (3.8%) and PCE (2.8%) inflation came in higher than expected as did Personal Consumption and CPI inflation. First quarter earnings reported in April were reasonably strong with blended S&P 500 top and bottom line growth of 5% and 4.1% respectively.

The S&P 500 lost ground on the month (-4%) for the first time since October as did non-U.S. equity markets (-2.4%). S&P 500 returns for the first four months of the year of 6% continue to lead globally with Europe (+3.2%), Japan (+5.6%), and emerging markets (+2.8%) all positive but trailing. Delayed prospects for a Fed pivot pushed bond yields and the USD higher in April. The 10yr UST yield moved higher in three of the past four months, closing up 0.49% in April at 4.69%. Credit spreads remained very tight with high yield at 3.185 and investment grade at 0.94%.

Market Anecdotes

- Bespoke notes this was the sixth time since WW2 that we've seen the S&P gain 5%+ in January after posting a negative return in the prior years.
- In the next 12 months, $18 billion of office loans converted into securities will mature—more than double the volume in 2023. Moody's projects that 73% of loans will be difficult to refinance because of the properties' income, debt levels, vacancies, and approaching lease expirations.
- The year end '23 BofA Fund Manager Survey serves as a stark reminder of the fallibility of attempting to forecast moves in interest rates where a record high 62% of respondents expected bond yields to fall in 2024 - just prior to another horrendous start to the year for bond markets.
- Strong personal consumption and private investment in Q1 helped offset a seemingly disappointing GDP report which was dragged down by net exports, government spending, and private inventories.
- While quarterly ECI data was warm, the labor market seems to be cooling with a miss on the headline establishment survey, cooler than expected monthly wage data, slower hiring intentions in survey data, and fewer job openings.
- U.S. government debt of $28t totals just over 100% of GDP with an average duration of 6-7 years and a healthy 30% reliance on foreign buyers/holders which is well below the 40% level we saw 5 years ago. For reference, outstanding Japanese government debt stands at 255% of GDP but the savings rate is 39% versus a mere 3.5% in the US.

Economic Release Highlights

- April payrolls grew by less than forecasted (175,000 vs 243,000) and the unemployment rate ticked up from 3.8% to 3.9%. Average hourly earnings came in lower than forecasted for both the MoM (0.2% vs 0.3%) and YoY (3.9% vs 4.0%) readings.

- The Q1 Employment Cost Index came in at 1.2% QoQ, in excess of both consensus (0.9%) and prior quarter (0.9%) rates. ECI registered 4.2% YoY versus 4.3% in the fourth quarter of 2023.
- Headline (core) PCE inflation came in slightly above YoY forecasts, (2.8% vs. 2.7%) and in line with MoM forecasts (0.3% vs. 0.3%). Personal Consumption again exceeded forecast (0.8% vs 0.6%) while Personal Income growth of 0.5% was in line.
- First quarter U.S. GDP of 1.6% was well under consensus forecast of 2.3% and below the bottom end of the forecast range of 1.7%-2.8%.
- Year-over-year headline (3.8 vs 3.7) and core (3.5% vs 3.5%) CPI along with MoM headline (0.4% vs 0.3%) and core (0.4% vs 0.3%) both came in slightly warmer than forecasted.
- Headline PPI (YoY 2.1% vs 2.3% and MoM 0.2% vs 0.3%) registered below expectations while the core readings (YoY 2.4% vs 2.3% and MoM 0.2% vs 0.2%) were warm and in line, respectively.
- April U.S. PMI (C,M,S) of (50.9,49.9,50.9) saw both services and manufacturing come in under their respective spot forecasts.
- Global PMIs (C,M,S) in April for the Eurozone (51.4,45.6,52.9), UK (54.0,48.7,54.9), and Japan (52.6,49.9,54.1) reflected continued economic expansion overseas.
- The JOLT Survey registered 8.488M job openings, below both the prior month (8.756M) and consensus estimate (8.700M).
- The Retail Sales report handily beat the consensus forecast on headline (0.7% vs 0.4%), Ex-Vehicles (1.1% vs 0.5%), and Ex-Vehicles & Gas (1.0% vs 0.3%).
- UofM Consumer Sentiment in April came in at 77.9, and was later revised lower to 77.2, slightly below consensus forecast of 79.0.
- Consumer Confidence Index registered 97.0 in April, well below consensus forecast of 104.0 and the estimated range of 103-105.6.
- The NFIB Small Business Optimism Index registered 88.5 versus consensus forecast of 89.9.
- New Home Sales registered 693K, ahead of the spot consensus 670k and above the high end of the 625k685k range. Pending Home Sales grew 3.4% MoM, well ahead of the 1% consensus expectation. Existing Home Sales of 4.19M were just above the spot forecast of 4.18M.
- Housing Starts (1.321M vs 1.480M) and Permits (1.458M vs 1.510M) both came in under consensus.
- April's Housing Market Index registered 51, right at the spot forecast. The Case-Shiller Home Price Index came in above consensus for both the MoM (0.6% vs 0.1%) and YoY (7.3% vs 6.7%).

Outlook

Our view continues to be to maintain a policy neutral stance with regard to risk assets in the short term but remain more cautious when looking out over our 12-24 month forecast horizon. We still see a likelihood for trend growth and economic conditions to deteriorate by the latter half of 2024 due to higher interest rates and persistent inflation with the "last mile" proving itself difficult for policy makers.

Erratic market conditions continue favoring periodic tactical (0-6 months) asset allocation shifts and rebalancing/profit taking, particularly when equity markets become extended (short term overbought). We are not anchored to a decidedly pro-growth or defensive investment posture and remain neutral on the growth/value style dimension. From a geography perspective, we continue to favor quality U.S. markets over non-U.S. due to currency and relative growth dynamics but are becoming more interested in some developed market international areas. Recommended fixed income positioning is neutral from a duration perspective and underweight below investment grade fixed income and bank loan markets over our forecast horizon.

Equity	Level	1 Mo	3 Mo	YTD	1 Yr	3 Yr
Dow Jones	37816	(4.92)	(0.39)	0.92	13.25	5.87
NASDAQ	15658	(4.38)	3.44	4.52	29.08	4.71
S&P 500	5036	(4.08)	4.29	6.04	22.66	8.06
Russell 1000 Growth		(4.24)	4.09	6.69	31.80	8.48
Russell 1000 Value		(4.27)	4.22	4.33	13.42	5.17
Russell 2000		(7.04)	1.73	(2.22)	13.32	(3.18)
Russell 3000		(4.40)	4.03	5.18	22.30	6.35
MSCI EAFE		(2.46)	2.73	3.33	9.84	3.39
MSCI Emg Mkts		0.47	7.92	2.92	10.33	(5.31)

Fixed Income	1 Mo	3 Mo	YTD	1 Yr	3 Yr
US Aggregate	(2.53)	(3.02)	(3.28)	(1.47)	(3.54)
High Yield	(1.00)	0.48	0.49	8.88	1.50
Municipal	(1.24)	(1.11)	(1.62)	2.08	(1.10)

Commodities	4/30/24	2/29/24	11/30/23	8/31/23
Oil (WTI)	80.10	79.22	75.66	83.55
Gold	2307.00	2048.10	2035.50	1942.30

Currencies	4/30/24	2/29/24	11/30/23	8/31/23
USD/Euro ($/€)	1.07	1.08	1.09	1.09
USD/GBP ($/£)	1.25	1.26	1.26	1.27
Yen/USD (¥/$)	157.54	149.90	147.87	145.68

Treasury Rates	4/30/24	2/29/24	11/30/23	8/31/23
3 Month	5.46	5.45	5.45	5.56
2 Year	5.04	4.64	4.73	4.85
5 Year	4.72	4.26	4.31	4.23
10 Year	4.69	4.25	4.37	4.09
30 Year	4.79	4.38	4.54	4.20

Style Returns

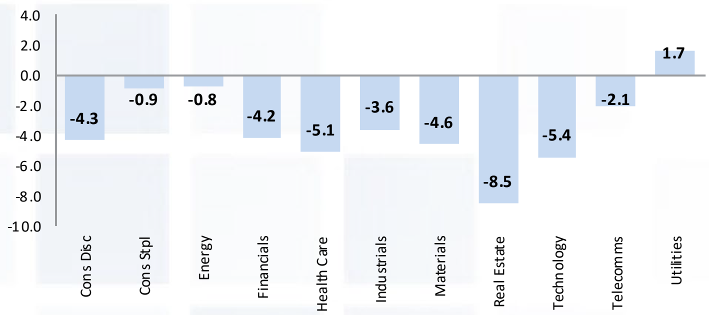
MTD

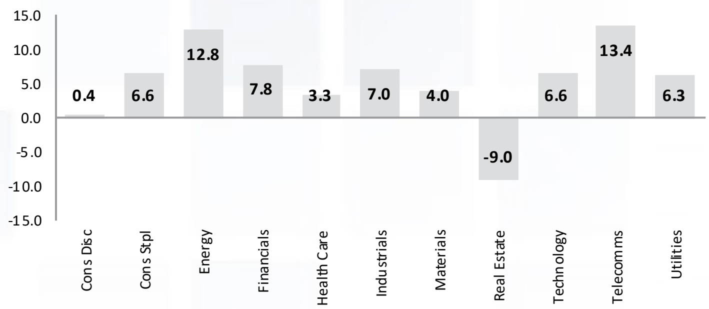
	V	B	G
L	-4.27	-4.26	-4.24
M	-5.23	-5.40	-5.81
S	-6.37	-7.04	-7.70

YTD

	V	B	G
L	4.33	5.60	6.69
M	2.56	2.73	3.14
S	-3.66	-2.22	-0.70

S&P 500 Sector Returns





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