

# Market commentary notes

Monthly call notes  
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Wealth  
Management

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*“A wise man proportions his  
belief to the evidence.”*

**David Hume**  
(May 7, 1711 – August 25, 1776)

## Key issues last month and this month:

**The Fed FOMC meeting April 30-May 1** — The Fed held their most recent FOMC meeting last week. In summary, the Fed’s view is that the economy is continuing to expand “at a solid pace.” Inflation has eased overall but in recent months there’s been a lack of progress on that front. The FOMC is still committed to getting to a 2% inflation rate in the long run. The Committee is keeping the overnight rate at 5 ¼ to 5 ½ % and “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.” In other words, don’t count on the rate coming down anytime soon. The Fed is also easing up on the net sales of treasuries and mortgages to \$60B/month from about \$95B/month previously. That should mean that longer-term rates rise, but not as much or as fast. [FOMC, <https://www.federalreserve.gov/newsevents/pressreleases/monetary20240501a.htm>, May 1, 2024]

The Fed also released its semi-annual financial stability report, wherein it assesses the stability of the U.S. financial system overall. Among their conclusions:

1. Assets are pricey. That includes stocks versus their earnings, corporate bonds and real estate.
2. Household debt is modest as a percent of GDP by historical standards. Corporate debt is high but coming down.
3. Capital in the banking system is at good levels although some banks have problems with their balance sheets [no kidding!]. Hedge fund leverage is really high. Brokerage firm leverage is very low compared to historical levels. Life insurers still have high levels of illiquid and risky assets. [FOMC, <https://www.federalreserve.gov/publications/files/financial-stability-report-20240419.pdf>, April 2024]

**According to the Fed’s April Beige Book report on the condition of the economy:** Ten of the 12 districts reported slight or modest growth and none reported slowing or negative growth. Consumer spending barely increased and manufacturing declined slightly. Auto spending was notably up though. Home construction and real estate sales were also up. Employment was generally up and retention was better but there were shortages of qualified applicants for some positions such as machinists. Prices were up modestly, with insurance rates up more. [FOMC, [https://www.federalreserve.gov/monetarypolicy/files/BeigeBook\\_20240417.pdf](https://www.federalreserve.gov/monetarypolicy/files/BeigeBook_20240417.pdf), April 17, 2024]

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**Earnings** — According to FactSet’s latest Earnings Insight report, the blended earnings growth rate for Q1 S&P 500 EPS currently stands at 5.0%. That’s 1.6% better than estimates at the beginning of the quarter. For the companies that have reported, earnings have been running 7.5% better than expected on average. The blended revenue growth rate is 4.1%. For 61% of the companies reporting, that was ahead of average estimates. So, while both earnings and revenues are ahead of average estimates, earnings are nicely ahead while revenues are weakly ahead. [Factset, Street Account Scorecard, 3 May 2024]

**Employment** — April’s nonfarm payroll jobs increase was 175,000 with the unemployment rate rising to 3.9%. Year-over-year wage increases amounted to 4.7%, which is ahead of recent inflation rates. The increased employment centered on health care, transportation and warehousing, retail sales and construction. [CNBC, <https://www.cnbc.com/2024/05/03/jobs-report-april-2024-us-job-growth-totaled-175000-in-april.html>, May 3, 2024] By the way, the Eurozone jobless rate is currently 6.5%. Canada is at 6.1%.

**Inflation** — The 12-month core PCE price index (excludes food and energy) was up 2.8% in March. The full index was up 2.7%, which is a couple of notches higher than it was in January and February, causing a little bit of Federal Reserve concern. [<https://www.bea.gov/data/personal-consumption-expenditures-price-index-excluding-food-and-energy>, May 4, 2024]

**April** — The S&P 500 took a break in April, dropping 4% back to the low 6’s YTD. Midcap and small cap fared worse, down 6% and 5.6% respectively. That puts small cap back in negative territory YTD (again!). REITs did even worse as interest rates increased, falling 7.9% for the month and -9.11% YTD.

On the bond side, the Bloomberg Agg—an index of intermediate investment-grade U.S. bonds—fell 1.88% to -2.29% YTD. Commodities (mostly oil and gold) were a bright spot, up 1.16% for + 11.6% YTD.

## Global stock indexes

Total Index	April %	YTD %	1 yr %	2023 Est PE Trailing/Projected
S&P 500	-4.08	6.04	22.66	23.27/21.76
S&P Mid Cap	-6.02	3.33	16.82	18.25/16.49
S&P Small Cap	-5.61	-3.29	12.55	26.69/16.44
FTSE All REIT	-7.91	-9.11	-0.82	
MSCI All Country xU.S.	-1.80	2.81	9.33	
MSCI Emerg Mkt	0.45	2.83	9.88	

Source: Morningstar as of April 30, 2024. Estimated PEs are 12-month values from S&P Dow Jones Indices. Trailing PEs are as of September 29, 2023. Projected PEs are as of December 29, 2023. Figures are provided for comparisons over time.

## Fixed income and alternatives

Total Return Index	April %	YTD %	1 yr %
Bloom Agg Intermed	-1.88	-2.29	-0.21
ICE BofA U.S. Convertibles	-3.42	-1.21	9.70
S&P GSCI	1.16	11.64	13.29
Bloom U.S. Corp HY	-0.94	0.52	9.02

Source: Morningstar as of April 30, 2024.

**Sector performance** — In April, every sector was negative within the S&P 500, except for utilities. Consumer staples and consumer discretionary were the least negative. Energy, real estate and materials brought up the rear. On a YTD basis as of May 3, communications, energy and info tech were the best performers while health care, consumer discretionary and real estate were at the bottom. [<https://www.spglobal.com/spdji/en/documents/performance-reports/dashboard-us.pdf>, May 4, 2024] [<https://digital.fidelity.com/prgw/digital/research/sector>, May 4, 2024]

## Commodities

### Commodity and food price changes, current month and YoY

Total Index	April %	YoY %
Copper	8.1%	18.4%
Lumber	-13.5%	10.1%
Cotton	-9.7%	-7.1%
Sugar	-12.1%	-26.6%
Coffee	-3.9%	6.9%
Wheat	11.9%	-1.1%
Corn	5.7%	-28.8%
Oil	-9.9%	13.8%
NatGas	21.2%	2.3%

Source: <https://tradingeconomics.com/commodities>, May 4, 2024

Five of these nine major commodities saw prices decline in April, like March. For these nine, the average one-year price change was a decline of 1.5%, which is a second month of approximate price stability.

Looking more broadly at commodities, when we look at 22 categories of agricultural commodities and 26 categories of industrial commodities, only 16 of the 48 saw price declines in April, compared to 24 last month and 29 in February. 21 saw lower prices than a year ago versus 31 last month. So it looks to me like we may be at the end of significant declines in commodities pricing, and that's the starting point for what eventually becomes our retail and business costs.

## U.S. economy

### The U.S. economy at a crossroads...

#### GDP estimates

[<https://www.bea.gov/data/gdp/gross-domestic-product>, May 4, 2024] [<https://www.atlantafed.org/cqer/research/gdpnow>, May 4, 2024] The economy continues to surprise. This time with a positive but modest +1.6% for 1Q in the advance estimate. Consumer spending and fixed investment were up. On the negative side, inventories were down while imports (a negative) were up. GDPNow's estimate for 2Q is +3.3%. We'll see if that stays. [<https://www.atlantafed.org/cqer/research/gdpnow>, May 4, 2024] [[https://www.census.gov/econ/indicators/advance\\_report.pdf](https://www.census.gov/econ/indicators/advance_report.pdf), May 4, 2024] [<https://www.bea.gov/news/2024/gross-domestic-product-first-quarter-2024-advance-estimate>, May 4, 2024]

#### U.S. PMI statistics

The April PMI Manufacturing number was down to 50 even from 52.5 last month. Services dipped a little to 51.3. Together, they point to a little unexpected slowing in the first quarter. [Trading Economics, PMI statistics May 4, 2024.]. [Trading Economics, <https://tradingeconomics.com/country-list/services-pmi> May 4, 2024]

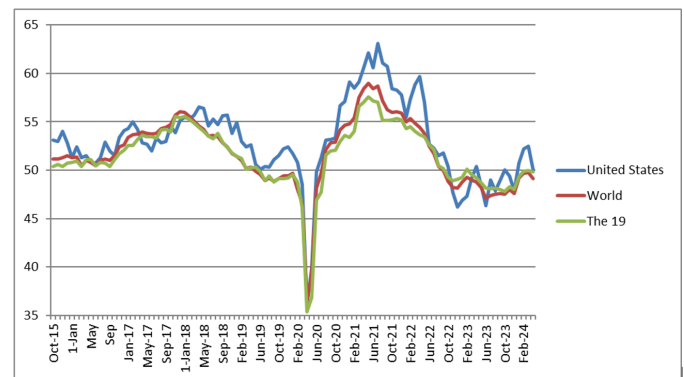
Incidentally, U.S. industrial capacity utilization stands at 78.4%, which is a little less than the average for the last 40 years. That suggests that demand pressures aren't currently what's driving inflation. [<https://www.federalreserve.gov/releases/g17/current/default.htm>, May 4, 2024]

## International

### Manufacturing PMI

Every month I look at global Purchasing Managers Index (PMI) statistics. The April numbers indicate that manufacturing expanded in 20 of our 38 countries. That's up from 19 last month. Germany, France and Italy all came in under 50, although Germany did a little better than earlier in the year. Spain was decisively above 50. EU's Services PMI rose further to 52.9, with Germany up to 53.3. Italy at 54.6, Spain at 56.1. Japan at 54.6. China stayed about where it was at 52.7. [<https://tradingeconomics.com/country-list/services-pmi>, May 4, 2024]. Looking overall at the global PMI's all of the major ones are about where they were a year ago, or fractionally better.

### Here's our updated graph of Manufacturing PMIs



Author's calculations based on published PMI statistics, as of May 4, 2024.

### Table summary

Region	Manu PMI	Last Month	12 mo. Ago
U.S.	50	52.5	50.4
19 majors	49.8	50.0	49.2
38 world	49.2	49.7	48.8
EU	45.7	45.7	45.5
China	51.4	50.9	50

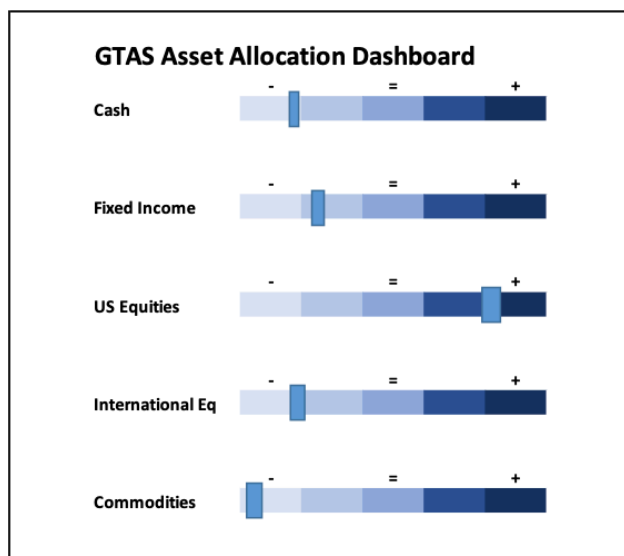
Source: Author's calculations based on published PMI statistics, May 4, 2024

## Investment strategy

Stocks and bonds took a pause in April as markets digested the idea that the Fed might not lower rates much or even at all this year. We also had some signs of slowing in the U.S. economy. That was more than I expected to see in 1Q. On the plus side, earnings growth for the S&P companies is coming in better than expected while revenues are okay. The dollar remains strong which may be why imports were up a bit, reducing GDP growth.

Taking all of this together, we're cautious about adding new money to the U.S. equity side right now. Better to wait a couple of months. Where bonds are concerned, better to continue to stay short-term for taxable bonds. Muni's are priced well in the 3-7 year range. Gold has outperformed so far this year, which is surprising because higher interest rates usually reduce gold demand since gold doesn't earn anything.

### GTAS Allocation chart



(+/-) represents our group's views over a 6- to 18-month time horizon concerning tilts relative to our strategic positions.

+ implies an overweight in that asset class.

= implies a weighting similar to our strategic weight.

- implies an underweight.

## Index definitions

Past performance is no guarantee of future results. You cannot invest directly in an index.

**Bar Agg Intermed** — Bloomberg Barclays U.S. Aggregate Intermediate Total Return index is composed of the BarCap Government/Credit Index, the Mortgage-Backed Securities Index, and the Asset-Backed Securities Index. The returns for the index are total returns, which includes the daily reinvestment of dividends.

**Bar U.S. Corp HY** — Bloomberg Barclays U.S. Corporate High Yield Total Return index includes all fixed income securities having a maximum quality rating from Moody's Investor Service of Ba1, a minimum amount outstanding of \$100 million, and at least one year to maturity.

**FTSE All REIT** — FTSE Nareit All Equity REITs Total Return index is an index of publicly traded Real Estate Investment Trusts (REITs) that own commercial property. All tax-qualified REITs with common shares traded on the NYSE, AMSE or NASDAQ National Market List are eligible. Additionally, each company must be valued at more than \$100MM USD at the date of the annual review.

**ICE BofA U.S. Convertibles** — ICE BofA U.S. Convertible Bonds Total Return index tracks the returns of U.S.-traded convertible debt issued by companies with a significant presence in the United States. The index is composed of various combinations of convertible structure and credit quality, e.g., it includes investment-grade, speculative-grade, and non-rated issues. The returns for the index are total returns, which include reinvestment of dividends.

**MSCI All Country xU.S.** — MSCI All Country World Index Ex USA NR is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global developed and emerging markets. The index consists of 48 developed and emerging market country indices. The returns for the index are total returns, which include reinvestment of dividends.

**MSCI Emerg Mkt** — MSCI Emerging Markets NR index consists of 26 developing economies including Argentina, Brazil, Chile, China, Colombia, Czech Republic, Egypt, Greece, Hungary, India, Indonesia, Korea, Malaysia, Mexico, Pakistan, Peru, Philippines, Poland, Qatar, Russia, Saudi Arabia, South Africa, Taiwan, Thailand, Turkey and the United Arab Emirates.

**S&P 500** — S&P 500 Total Return index is a market capitalization-weighted index composed of the 500 most widely held stocks whose assets and/or revenues are based in the U.S.; it's often used as a proxy for the U.S. stock market. Total Return (TR) indexes include daily reinvestment of dividends.

**S&P GSCI** — S&P GSCI Total Return index is a composite index of the commodity futures. It represents unleveraged, long only investments in commodity futures that are broadly diversified.

**S&P Mid Cap** — S&P MidCap 400 Total Return index is comprised of stocks in the middle-capitalization range, and includes approximately 10% of the capitalization of U.S. equity securities. Total Return (TR) indexes include daily reinvestment of dividends.

**S&P Small Cap** — S&P SmallCap 600 Total Return index consists of 600 domestic stocks chosen for market size, liquidity, and industry group representation. Total Return (TR) indexes include daily reinvestment of dividends.



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