Monday, May 6, 2024

SUMMARY-

I. NASDAQ leads stock rebound for second straight week.

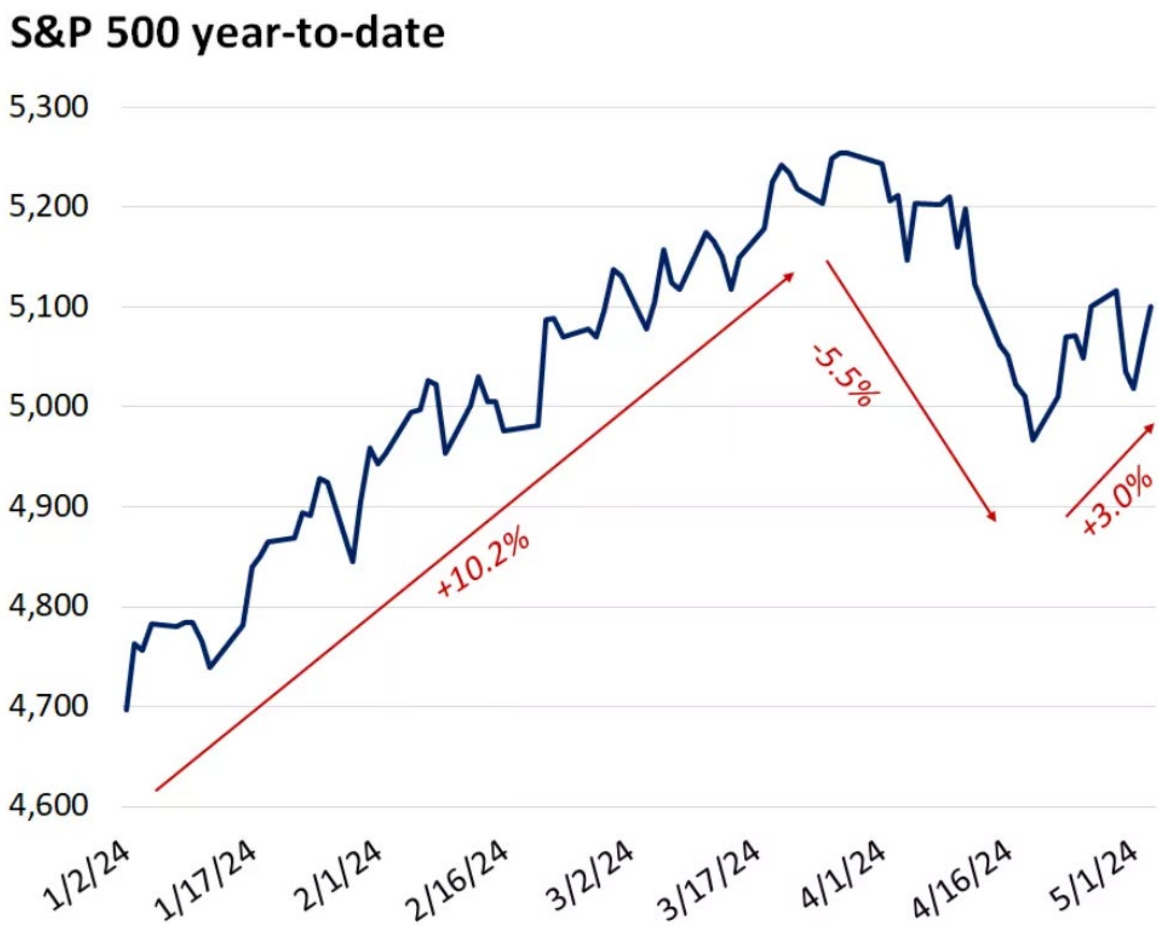
II. Labor data and earnings reports buoy stocks while Fed remains on hold.

III. Tech sector remains strong as market leadership broadens.

IV. Easing bond yields and quiet week ahead could help rebound continue.

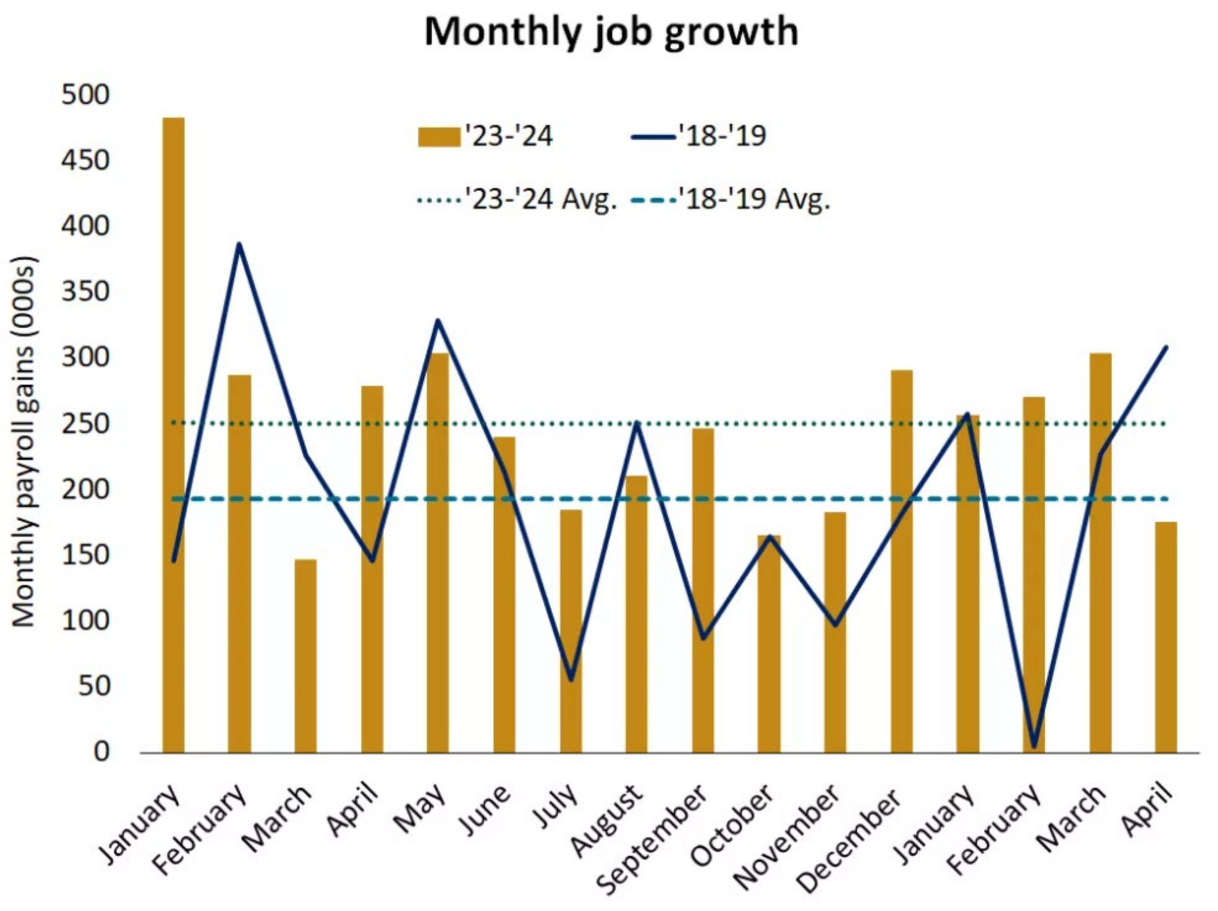
Good morning:

Positive earnings results, labor reports, and the Fed all factored into the market's second straight week higher as it rebounds from April's mild pullback. Leading equity averages higher was the NASDAQ that added 1.4%. After expectations went from six rate cuts to one in 2024, a mere 5% reversal last month was remarkably resilient and encouraging. The positive earnings picture and economic backdrop continues to provide support for equities as they have already recovered nearly half of their recent drawdown. The fight to keep inflation heading lower continues to take center stage since all economic data is immediately scrutinized as either supportive or counterproductive to potential Fed rate cuts. As expected, the Fed left rates unchanged at last week's FOMC meeting.



Source: FactSet, S&P 500 Index.

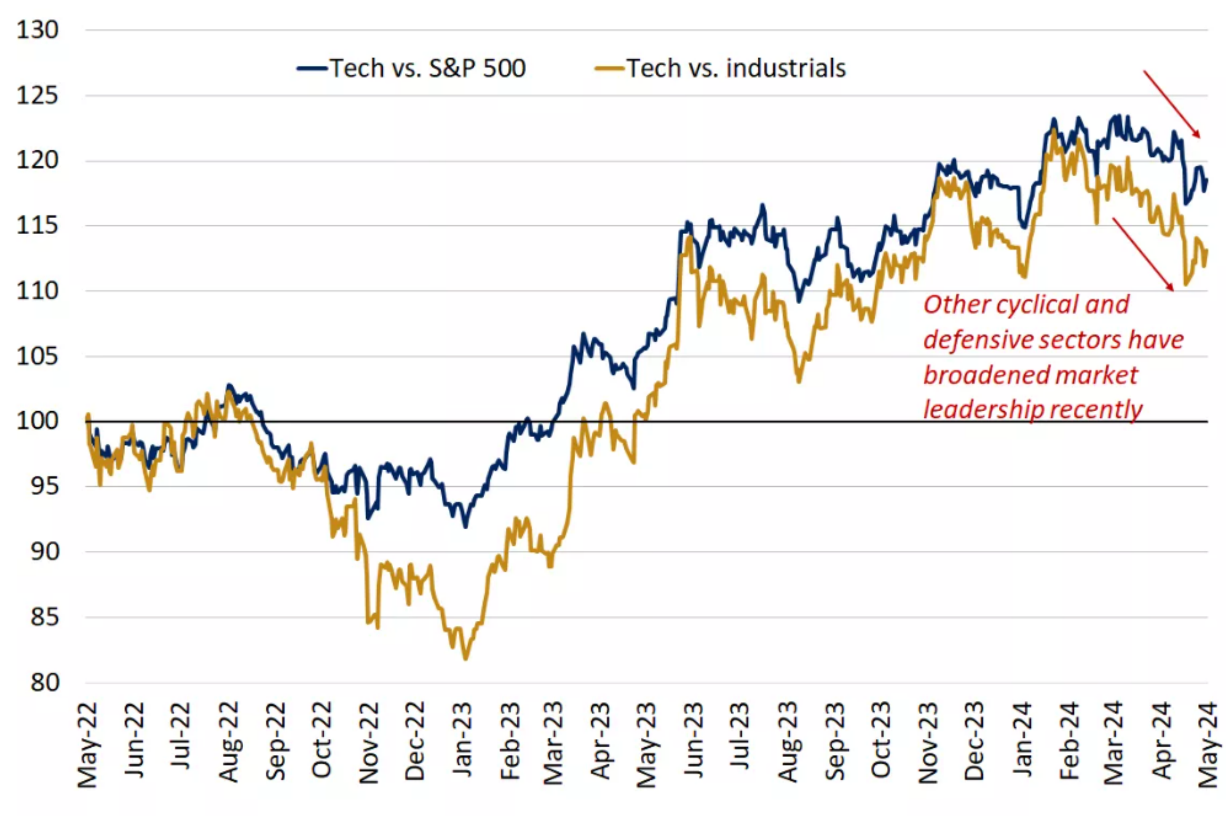
Remember, it was the Fed's pause in its long rate hiking cycle that helped spark the stock market rally last October. Since then, however, further progress towards getting inflation down to the Fed's 2.0% target rate has proven far more elusive prompting some to suggest a resumption of rate hikes could be necessary. This has been largely due to persistent stickiness in the price increases of services and housing. Supporting the ability for consumers to continue spending has been the strong labor market. Jobs data provided both positive and negative news last week to the inflation picture. Labor cost data early in the week appeared inflationary, while Friday's jobs report came in cooler than expected but still supportive of a strong consumer. As usual, it's a Goldilocks scenario that the markets hope can continue.



Source: FactSet.

With another slew of important earnings results last week, the positive-growth picture was further solidified leading to capital flowing back into equities. The "higher for longer" interest rate scenario will likely only be tolerated so long as the economic backdrop remains sufficiently solid to support current expectations for earnings growth. Until rate cuts can help justify higher equity multiples, stocks will need to rely primarily on increasing profits. Share buybacks, stock splits, and dividend increases can all help as well but only if earnings momentum remains positive. Enthusiasm for the potential of A.I. continues to help key mega-cap tech companies while signs of broadening market leadership has started to appear. We see this as an important step in the right direction for the health of this bull market and further gains in the months ahead in the major averages.

Tech sector performance relative to the overall market and industrials



Source: FactSet. S&P 500 Technology Sector Index relative to S&P 500 Index and S&P 500 Industrial Sector Index, based to 100.

The week ahead will see a few more important earnings reports and conclude with the latest Consumer Sentiment report on Friday. With out any surprises, and bond yields continuing to moderate, it could provide equities little resistance to continue their rebound. Of course, investors should always be prepared for unexpected volatility and not react emotionally to short-term market swings. Instead, look out at the longer-term economic and growth picture and let time and patience work to your advantage.

Have a great week!

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The NASDAQ composite is an unmanaged index of securities traded on the NASDAQ system.

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