The Weekly Market Update – 2/26/24: Tech Tide Lifts Boats

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,088.80	1.66%	6.69%	6.69%	24.83%	5,088.80	0.0%
Dow Jones Industrial Average	39,131.53	1.30%	3.83%	3.83%	14.80%	39,131.53	0.0%
NASDAQ Composite	15,996.82	1.40%	6.56%	6.56%	38.09%	16,057.44	0.4%
Russell 2000	2,016.69	-0.79%	-0.51%	-0.51%	4.39%	2,442.74	21.1%
MSCI EAFE (USD)	2,288.42	1.38%	2.34%	2.34%	8.95%	2,398.71	4.8%
MSCI Emerging Markets (USD)	1,028.31	1.19%	0.45%	0.45%	-0.31%	1,444.93	40.5%
Bloomberg Commodity Index	95.41	-0.88%	-3.29%	-3.29%	-14.66%	237.95	149.4%
Barclays U.S. Aggregate Bond	89.82	0.29%	-2.05%	-2.05%	-1.84%	112.07	24.8%

Source: FactSet

While an extended rally in technology stocks grabs financial headlines, recent equity market gains have expanded. Last week (ended 2/23/24), the widely followed, large-company S&P 500 equity index gained +1.7% (not including dividends). The index has posted increases for 6 of 8 weeks in 2024, and on 2/23/24, closed at a new all-time high with a year-to-date (YTD) gain of +6.7%. Its largest sector, Information Technology (one of the eleven global industry classification standards (GICS) sectors as defined by MSCI), has also moved higher for 6 of 8 weeks, and was up +9.6% YTD. This reflects continued leadership from technology and growth (generally considered to include stocks with higher-than-average earnings growth potential) stocks. Another growth sector, Communication Services (also tech-centric as it includes the leading social media and digital advertising companies), gained +11.7% YTD through 2/23/24, the leading S&P 500 sector. However, unlike January when a handful of companies provided the bulk of the equity market increase, gains in February included broad participation. In January 2024, the S&P 500 increased +1.6%, but 7 of the 11 GICS sectors traded lower for the month. In addition, the Equal Weight S&P 500 (EWSP), which assigns an equal weight to all 500+ S&P 500 constituents compared to the broad index which is weighted by market capitalization, declined -0.9%. The S&P 500 gain in February (through 2/23/24) was +5.0%; all 11 GICS sectors were higher, and the EWSP increased +3.4%. We attribute the broad participation in February gains to positive corporate earnings reports, which have exceeded expectations. Through early Monday, 90% of the S&P 500 had reported fourth quarter earnings results and the FactSet consensus estimate for the full quarter now sits at +4.0%, compared to estimated growth of +0.9% as of 12/31/23. While equity valuations remain elevated (the S&P 500 trades at 21.0x estimated earnings for 2024), we view broad participation positively and this could lead to improved relative performance for sectors that lagged the broader index in January.

Equity gains in February continued despite higher interest rates. In late 2023, equity indices surged as investors anticipated a path for lower interest rates as the Federal Reserve Bank (Fed) appeared poised to begin easing financial conditions by lowering interest rates. Today, investors continue to debate when the Fed will begin to ease but expectations have moderated. Yields on the U.S. 2-year Treasury note (which we view as a proxy for short-term interest rates) has moved to 4.73% (2/26/24) from 4.22% at the end of January, and the 10-year Treasury yield is at 4.29% from 3.95%. While higher interest rates can create headwinds for equity valuations (higher rates reduce the present value of future cash flows), higher rates can also reflect improving economic conditions, in turn supporting rising earnings expectations. For now, the uptick in interest rates has been viewed positively as we believe that markets still expect the Fed to begin lowering its short-term interest rate target in the second quarter of this year (May or June). If that changes, a Fed return to a “higher rates for longer” policy could lead to renewed volatility.

Investors this week will focus on a key Fed inflation number, as well as yet another looming federal budget standoff. On 2/29/24, the Bureau of Economic Analysis (BEA) will report the January personal consumption expenditure (PCE) price index (PI), the Fed’s preferred consumer inflation measure. Consensus expectations look for the PCE PI to come in at +2.4% and the core PCE PI (excludes food and energy) at +2.8%. If those estimates are accurate, the Fed is likely to view inflation trends positively. Congress must pass a series of spending bills this week to avoid a partial government shutdown by 3/1/24. The deadline could be extended as well.

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