The Weekly Market Update – 3/4/24: No Whimpers in February

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,137.08	0.95%	7.70%	7.70%	29.39%	5,137.08	0.0%
Dow Jones Industrial Average	39,087.38	-0.11%	3.71%	3.71%	19.69%	39,131.53	0.1%
NASDAQ Composite	16,274.94	1.74%	8.42%	8.42%	42.07%	16,274.94	0.0%
Russell 2000	2,076.40	2.96%	2.43%	2.43%	9.46%	2,442.74	17.6%
MSCI EAFE (USD)	2,303.90	0.68%	3.03%	3.03%	12.18%	2,398.71	4.1%
MSCI Emerging Markets (USD)	1,024.68	-0.35%	0.09%	0.09%	6.29%	1,444.93	41.0%
Bloomberg Commodity Index	97.22	1.90%	-1.45%	-1.45%	-8.42%	237.95	144.8%
Barclays U.S. Aggregate Bond	90.12	0.34%	-1.72%	-1.72%	1.29%	112.07	24.4%

Source: FactSet

February ended with a bang for U.S. equities, taking the widely followed S&P 500 index to new highs. Our Weekly Market Updates each week in February highlighted a strong equity market environment, including new all-time highs to begin the month, better-than-expected January economic data fueled by job market gains, and a widening rally that included expanding sector participation and small-company stocks. In addition, equities sustained the rally despite U.S. interest rates that moved higher since year-end as investors reset expectations for the level of possible 2024 interest rate reductions from the Federal Reserve Bank (Fed). The large-company S&P 500 index increased +5.2% (price return, excludes dividends) in February, bringing the 2024 year-to-date (YTD) gain to +6.8% (and after an additional surge on Friday, 3/1, the YTD increase was +7.7%). A month ago, we were concerned that upside was driven by a small group of companies; in January, 6 of the 11 macro sectors (global industry classification standards, GICS, as defined by MSCI) were down for the month. This turned positive in February as all 11 S&P 500 GICS sectors were higher, with leadership from Consumer Discretionary, Industrials, Materials, and Technology. We view the wider sector participation positively as it likely reflects an improving economic outlook highlighted by expectations for a “soft landing” (no recession). We remain cautiously optimistic as we balance solid data on reported earnings and economic trends with elevated valuations (the S&P 500 trades at 21.2x the 2024 FactSet consensus earnings estimate). Despite fourth quarter (4Q23) S&P 500 earnings results (+4.0%) that have largely exceeded expectations, estimates for 2024, at this point, have not moved higher. This could limit upside despite strong investor sentiment. We would look for opportunities to rebalance portfolios (trim overweight positions, add to underweight positions) and upgrade quality (defendable market share, positive cash flow, and manageable debt).

Latest inflation data confirmed an uptick in January, but by the end of the week interest rates had moved lower. The U.S. Bureau of Economic Analysis (BEA) reported January consumer data that showed both personal income and spending positive for the month and above expectations. Included in the report was the personal consumption expenditures price index (PCE PI), an alternative measure (vs. the consumer price index) of consumer inflation monitored by the Fed. The January core PCE PI (excludes food & energy prices) increased +2.8% year-over-year (Y/Y), down from +2.9% in December. However, the January month-to-month (M/M) number increased +0.4% (+4.8% annualized), the highest in a year, suggesting that the path to returning to +2.0% inflation (the Fed’s target) could become less linear. The M/M uptick bears watching, but one month does not make a trend. The U.S. 2-year Treasury yield (a market measure of short-term interest rates) closed the week at 4.54%, down from 4.72% at the beginning of the week. This tells us that bond investors believe that inflation will improve, continuing a lower trend.

Markets await February jobs data as an important input to 1Q24 economic trends. The Bureau of Labor Statistics’ labor report on Friday is expected to show an increase of +200 thousand (K) nonfarm payrolls, down from +353K in January. The FactSet consensus (from Wall Street economists) for 1Q24 economic growth is +0.8% annualized, as of 3/1/24. The Atlanta Federal Reserve Bank GDPNow estimate, which tracks economic growth as data is reported and which we view as a valuable real-time companion to economists’ estimates, was +2.1%, as of 3/1/24 (mostly data through January so far), reflecting solid spending trends from consumers and government expenditures, with some slowing in business investment, especially equipment.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.