The Weekly Market Update – 3/11/24: What If Growth Stocks Stumble?

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,123.69	-0.26%	7.42%	7.42%	29.06%	5,157.36	0.7%
Dow Jones Industrial Average	38,722.69	-0.93%	2.74%	2.74%	18.58%	39,131.53	1.1%
NASDAQ Composite	16,085.11	-1.17%	7.15%	7.15%	40.41%	16,274.94	1.2%
Russell 2000	2,082.71	0.30%	2.74%	2.74%	9.79%	2,442.74	17.3%
MSCI EAFE (USD)	2,357.74	2.34%	5.44%	5.44%	14.81%	2,398.71	1.7%
MSCI Emerging Markets (USD)	1,037.09	1.21%	1.30%	1.30%	7.58%	1,444.93	39.3%
Bloomberg Commodity Index	98.00	0.81%	-0.65%	-0.65%	-7.68%	237.95	142.8%
Barclays U.S. Aggregate Bond	90.84	0.80%	-0.94%	-0.94%	2.10%	112.07	23.4%

Source: FactSet

The large-company S&P 500 equity index traded lower last week, but 8 of 11 macro sectors (as measured by MSCI's Global Industry Classification Standards, or GICS) moved higher. The S&P 500 has been on a tear in 2024 (and late 2023), posting week-to-week gains in 7 of 10 weeks this year, and in 16 of 19 weeks dating back to 10/27/23. Gains this year are largely paced by growth stocks (generally considered as companies with higher-than-average expected sales and earnings growth). In 2024, with the S&P 500 up +7.4% year-to-date (YTD) through 3/8/24, two "growth" sectors, Technology (+11.1%) and Communication Services (+10.6%), have led the way. The concentration of gains was further evidenced by comparing the S&P 500 Equal Weight (EW) YTD gain of +4.5% to the S&P 500's +7.4%. The EW index assigns the same weight to all 500+ constituents, while the S&P 500 index is weighted by market capitalization, giving the largest companies higher weightings. The EW performance gives a picture of the "average" stock in the index. Last week, the S&P 500 dropped -0.3%, only its second down week since the first week of 2024. Three sectors were lower (Technology, Communication Services, and Consumer Discretionary) while the other eight gained, led by Utilities, Materials, and Real Estate. The EW index (+0.9%) increased for the week and has outperformed the S&P 500 for 3 of the past 4 weeks. This leads to a broad equity market question from investors: can equities move higher without leadership from the large cap growth stocks? Our view is that broader participation from more companies and sectors is a positive development, creating a good environment for diversified equity portfolios and potentially leading to more durable market gains. On the other hand, continued lagging performance from some of the largest companies, especially growth- and technology-centric stocks, creates headwinds for indices, potentially limiting portfolio upside. We believe that while investors should scale back equity market return expectations over the medium-term (2024 and 2025), the current environment is an opportunity to rebalance portfolios (trim outperformers, add to underperformers) and to increase diversification across sectors.

Strong February jobs report is a little rough around the edges. According to the Bureau of Labor Statistics (BLS), the U.S. created +275 thousand (K) nonfarm payrolls (jobs) in February, solidly above the +200K FactSet consensus (from Wall Street economists), and the 3-month average of +265K/month was the highest since June 2023. At the same time, January's jobs gains, originally reported at +353K, were revised down to +229K, and the unemployment rate moved to 3.9%. This was the highest unemployment rate in more than 2 years (since January 2022). In addition, wage growth, as measured by average hourly earnings (AHE), while in-line annually (+4.3%), moderated to just +0.1% month-to-month (M/M), the smallest increase in 2 years. One month of decelerating wage growth does not make a trend but, if it extends into future months, could create consumer spending headwinds. In addition, alternative BLS employment data, the "Household Survey", has reflected job declines for the past three months, indicating that reported jobs growth will likely slow in 2024.

On Tuesday, the BLS will release the February inflation report, with possible ramifications for interest rates. A key measure of consumer inflation, the consumer price index (CPI), is expected to increase +3.1% Y/Y in February and +3.7% excluding food and energy prices (core CPI). All eyes will be on the core CPI M/M increase as the February change of +0.4% was the highest in 7 months, and a similar increase in February could further delay the Federal Reserve Bank's plan to reduce short-term interest rate targets.

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