The Weekly Market Update – 3/25/24: The Fed Sees More Than a Soft Landing

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,234.18	2.29%	9.74%	9.74%	31.84%	5,241.53	0.1%
Dow Jones Industrial Average	39,475.90	1.97%	4.74%	4.74%	20.88%	39,781.37	0.8%
NASDAQ Composite	16,428.82	2.85%	9.44%	9.44%	43.41%	16,428.82	0.0%
Russell 2000	2,072.00	1.60%	2.22%	2.22%	9.23%	2,442.74	17.9%
MSCI EAFE (USD)	2,351.57	1.14%	5.16%	5.16%	14.50%	2,398.71	2.0%
MSCI Emerging Markets (USD)	1,039.32	0.44%	1.52%	1.52%	7.81%	1,444.93	39.0%
Bloomberg Commodity Index	98.70	-0.49%	0.06%	0.06%	-7.02%	237.95	141.1%
Barclays U.S. Aggregate Bond	90.36	0.76%	-1.46%	-1.46%	1.56%	112.07	24.0%

Source: FactSet

Equities rallied last week after the U.S. Federal Reserve Bank (Fed) held its short-term interest rate target unchanged and put 2024 U.S. economic growth above its prior projection. The widely followed S&P 500 equity index increased +2.3% last week, moving above 5,200 for the first time and establishing a new closing high for three consecutive days through Thursday, 3/21/24. This was the best week for the index this year, and the Fed's Open Market Committee (FOMC) met on Tuesday and Wednesday. The Fed held its overnight bank-lending fed funds interest rate target range steady at 5.25% to 5.50%, stable since July 2023 and reflecting no change to the target rate for each of the past five FOMC meetings. The Fed also updated its Summary of Economic Projections (SEP), last revised in December 2023. The SEP incorporates estimates of U.S. economic growth (as measured by gross domestic product, or GDP), unemployment, inflation, and interest rates from 19 FOMC voters (Federal Reserve Bank presidents and board members). The March SEP included a 2024 U.S. GDP median growth estimate of +2.1%, substantially higher than the +1.4% estimated in the December 2023 SEP. The median 2025 GDP growth estimate also moved to +2.0% from +1.8% in the prior SEP. The rising economic growth outlook was notable, in our opinion, following strong GDP growth in the second half of 2023 (+4.9% in the third quarter, 3Q23, and +3.2% in 4Q23). While some investors debate the potential for a recession (negative GDP growth) vs. a "soft landing" (positive, but low GDP growth of +1.0% or less), the median Fed projection is well above those two potential outcomes and suggests a "no landing" economy. We view a no landing economy as U.S. economic growth remaining at +2.0% or higher, which can, in our view, support ongoing earnings growth and further gains in stock prices. The 1Q24 FactSet consensus (from Wall Street economists) GDP estimate was +1.5% as of 3/22/24, up from +0.8% estimated at the end of January, indicating rising expectations.

The S&P 500 has posted weekly gains following each of the past four FOMC meetings, dating back to October 2023. The average weekly gain was +3.1% as equity investors reacted positively to the Fed's intended "pivot" to lower interest rates. While the Fed has still not lowered its fed funds target range, Fed Chairman Jerome Powell, in his post-meeting press conference, said the current fed funds target (5.25% to 5.50%) is "likely at its peak for this tightening cycle," and indicated that if economic growth continues, the Fed is likely to begin lowering the target rate this year. The SEP reflected a median 2024 (at year-end) fed funds target of 4.6% (the same as the December SEP), indicating three, 0.25% rate cuts this year, taking the fed funds target to 4.50% to 4.75%. Equity investors appear encouraged by the prospect for lower interest rates ahead at the same time that U.S. GDP growth has exceeded expectations. We caution that risks remain, in our view, and we will watch for slowing jobs growth, the potential for inflation gains (lower) to stall, and the potential for long-term interest rates (we look at the U.S. 10-year Treasury yield) to remain higher than expected.

This week, we are watching economic data but the key consumer spending and inflation report is due Friday, when the market is closed for Good Friday. Personal income and spending are both expected to grow from January levels and feed into 1Q24 GDP growth expectations. The Fed's preferred inflation measure, the personal consumption expenditures price index (PCE PI), is expected to have increased +2.5% year-over-year (Y/Y) in February, up from +2.4% in January, and the M/M increase is expected to tick higher as well. For now, we view the M/M report as the key number because near-term pricing relief feeds into sustained improvement.

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