D|A DAVIDSON
WEALTH MANAGEMENT

The Weekly Market Update – 4/1/24: S&P 500 Delivers Double-Digit Q1 Returns

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,254.35	0.39%	10.16%	10.16%	27.86%	5,254.35	0.0%
Dow Jones Industrial Average	39,807.37	0.84%	5.62%	5.62%	19.63%	39,807.37	0.0%
NASDAQ Composite	16,379.46	-0.30%	9.11%	9.11%	34.02%	16,428.82	0.3%
Russell 2000	2,124.55	2.54%	4.81%	4.81%	17.87%	2,442.74	15.0%
MSCI EAFE (USD)	2,346.84	-0.20%	4.95%	4.95%	12.15%	2,398.71	2.2%
MSCI Emerging Markets (USD)	1,040.39	0.10%	1.63%	1.63%	5.06%	1,444.93	38.9%
Bloomberg Commodity Index	99.49	0.80%	0.85%	0.85%	-5.70%	237.95	139.2%
Barclays U.S. Aggregate Bond	90.49	0.15%	-1.32%	-1.32%	-0.65%	112.07	23.8%

Source: FactSet

The widely followed S&P 500 equity index increased +10.6% including dividends (total return) in the first quarter (1Q24), solidifying healthy gains for U.S. stocks. Following a 4Q23 total return of +11.7%, the S&P 500 posted back-to-back quarters of double-digit percentage gains (more than +10%) for the first time in 12 years (since the first quarter of 2012). Strength in equity markets, in our view, reflected economic data that has exceeded forecasts, leading to upward revisions in growth estimates, plus anticipation that the U.S. Federal Reserve Bank (Fed) is preparing to loosen monetary policy and begin lowering short-term interest rates. Economic data reported by the Bureau of Economic Analysis (BEA) showed that U.S. gross domestic product, or GDP (the value of goods and services produced), increased +3.4% annualized in 4Q23, and the FactSet consensus (from Wall Street economists) for 1Q24 GDP growth was +1.7%, as of 3/31/24. Data has mostly defied expectations for a slowing economic trajectory as consumer spending, business investment, and government outlays have surged. At the same time, the Fed believes that consumer inflation will continue on a path toward a +2.0% target over time, supporting a gradual reduction in the Fed's overnight fed funds interest rate target range, which currently sits at 5.25% to 5.50%. Equities rallied despite market-traded interest rates moving higher in 1Q24. The U.S. 10-year Treasury yield, which we view as a proxy for long-term interest rates, was 4.20% on 3/31/24, up from 3.88% at year-end, and expectations for the size of fed funds rate reductions in 2024 (per the public futures market) decreased to 0.75% in late March from 1.50% in January. The rally continued, in our view, because investors believe stronger-than-expected GDP growth can drive upside to earnings estimates as well. This was also reflected in a broadening of the equity rally in March as all 11 Global Industry Classification Standard (GICS) sectors were positive for the month, led by Energy, Utilities, and Materials. While the Technology sector also gained in March, 8 of the 11 sectors beat Tech during the month as a wide range of stocks participated in gains. We look for the broad participation to continue as investors search for relative value, but caution that valuations are elevated, potentially limiting total return potential from current levels.

The latest U.S. income and spending data (February) reflected elevated spending despite slowing income growth and an uptick in month-to-month (M/M) inflation. According to the BEA, personal consumption expenditures (PCE), the largest component of U.S. GDP, increased +0.8% in February (vs. January) and exceeded both January spending growth and February estimates. At the same time, personal income (salaries and wages) increased +0.3% for the month. While positive, the increase was less than expected and raises questions about the sustainability of above-trend spending. The personal savings rate (savings as a percentage of disposable income) decreased to 3.6% from 4.1% in January. The core PCE price index (PI), the Fed's preferred measure of consumer inflation which excludes food and energy prices, increased +0.3% in February from January. Over the past 6 months, the M/M core PCE PI increased +3.0% annualized, up from +1.8% in 12/23, indicating some emerging inflation pressure.

Markets will look to keep the rally going as 2Q24 begins, and we await a key March jobs report on Friday. Despite rising 2024 GDP estimates, U.S. economic growth is expected to slow from 2023 levels. We expect monthly jobs data to be watched closely, and the March BLS employment report will be reported on 4/5/24. The FactSet consensus estimate reflects an increase of +193 thousand (K) nonfarm payrolls, a healthy increase but below +275K in February.

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Please refer to page 2 of this report for detailed disclosure information.

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