The Weekly Market Update – 4/29/24: GDP Growth Slows, Inflation Rises

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,099.96	2.67%	-2.94%	6.92%	24.11%	5,254.35	3.0%
Dow Jones Industrial Average	38,239.66	0.67%	-3.94%	1.46%	14.92%	39,807.37	4.1%
NASDAQ Composite	15,927.90	4.23%	-2.76%	6.11%	30.32%	16,442.20	3.2%
Russell 2000	2,002.00	2.79%	-5.77%	-1.24%	11.07%	2,442.74	22.0%
MSCI EAFE (USD)	2,275.32	1.74%	-3.05%	1.75%	8.73%	2,398.71	5.4%
MSCI Emerging Markets (USD)	1,041.52	3.72%	0.11%	1.74%	5.17%	1,444.93	38.7%
Bloomberg Commodity Index	102.92	-0.13%	3.45%	4.33%	-2.45%	237.95	131.2%
Barclays U.S. Aggregate Bond	88.11	-0.14%	-2.64%	-3.92%	-3.27%	112.07	27.2%

Source: FactSet

U.S. economic growth in the first quarter (1Q24), while positive, reflected slowing trends and inflation ticked higher. U.S. gross domestic product (GDP), economic output as reported by the Bureau of Economic Analysis (BEA), increased +1.6% (inflation-adjusted annualized growth) in 1Q24, below both the +2.2% FactSet consensus (from Wall Street economists) estimate and the previous quarter's (4Q23) +3.4% growth. This was the lowest GDP print since 2Q22, a period of seven quarters. However, the major drivers of economic output (consumer spending, business investment, and housing) collectively contributed +2.6% to GDP growth, and government spending added +0.2%. That totaled +2.8% growth, but both inventories (subtracted -0.3%) and trade (subtracted -0.9%) reduced the final number to +1.6%. The inventory reduction suggests that output was below final demand, perhaps suggesting better growth ahead, but could also reflect caution from producers. Trade reduced GDP due to weak exports (possible growth headwinds abroad) and surging imports (strong U.S. demand). In our view, underlying economic trends were better than the headline report, and reflected positive, but slowing, growth trends. Consumer inflation (as measured by the personal consumption expenditures price index) increased at a +3.4% rate in 1Q24, compared to +1.8% in 4Q23, confirming a trend of renewed price pressure revealed in other monthly inflation reports. Recent increases in inflation have contributed to higher interest rates, but equity market reaction was net positive as the widely followed S&P 500 equity index gained +2.7% for the week ended 4/26/24.

Despite intense investor scrutiny on Federal Reserve Bank (Fed) policy changes, this week's Fed meeting, ironically, is expected to be relatively uneventful. The Fed's Open Market Committee meets for the 3rd time in 2024, concluding its two-day meeting on 5/1/24. Since last hiking its overnight bank lending fed funds interest rate target range in July 2023, the Fed has held the range unchanged (a fed funds "pause") for five consecutive meetings. We expect the pause to continue for meeting number six, with the Fed holding its fed funds target range at the current level of 5.25% to 5.50%. In the fourth quarter last year, investor expectations shifted to predict the Fed could consider adjusting the fed funds target to a lower, more "neutral," level as economic trends were trending higher and inflation lower. Throughout 1Q24, however, those trends either stalled or reversed, delaying the timing of the first expected Fed rate cut. We still expect the Fed to lower its target range in 2024, but the Committee is now in a position to wait for monthly data in the second quarter as its monitors inflation and GDP trends. If inflation accelerates further, we expect the Fed to be less willing to cut, even if the economy slows. After this week's meeting, the Fed meets again in six weeks in mid-June, then again in late July. The fed funds futures market (using the CME FedWatch Tool, as of 4/26/24) priced in an 11% probability of a June fed funds interest rate cut and 31% odds of a July cut. The Fed could make comments on Wednesday to alter that outlook, but the potential for lower short-term interest rates is increasingly a second half story. To us, this suggests interest rates will stay higher for longer.

There's a big week ahead for data as earnings reports continue, the Fed meets Wednesday, and April jobs data closes out the week. By the end of the week, when 173 S&P 500 companies are scheduled to report March-quarter financial results, more than 80% of index earnings reports will be completed. Overall estimated earnings growth remains above +3%. Friday's Bureau of Labor Statistics April jobs report is expected (FactSet consensus) to show a solid nonfarm payrolls increase of +220 thousand (K), but below the +303K reported in March and +270K in February.

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