



**The Weekly Market Update – 5/28/24: Tech Stocks Drive May Gains**

| Major Indices (Price Returns) | Close     | Last Week | Quarter-to-Date | Year-to-Date | Trailing 12-Months | All-Time High | % to High |
|-------------------------------|-----------|-----------|-----------------|--------------|--------------------|---------------|-----------|
| S&P 500                       | 5,304.72  | 0.03%     | 0.96%           | 11.21%       | 27.23%             | 5,321.41      | 0.3%      |
| Dow Jones Industrial Average  | 39,069.59 | -2.33%    | -1.85%          | 3.66%        | 14.58%             | 40,003.59     | 2.4%      |
| NASDAQ Composite              | 16,920.80 | 1.41%     | 3.30%           | 12.72%       | 38.39%             | 16,920.80     | 0.0%      |
| Russell 2000                  | 2,069.67  | -1.24%    | -2.58%          | 2.10%        | 17.00%             | 2,442.74      | 18.0%     |
| MSCI EAFE (USD)               | 2,358.87  | -0.94%    | 0.51%           | 5.49%        | 10.03%             | 2,398.71      | 1.7%      |
| MSCI Emerging Markets (USD)   | 1,082.98  | -1.53%    | 4.09%           | 5.79%        | 10.84%             | 1,444.93      | 33.4%     |
| Bloomberg Commodity Index     | 105.03    | -0.68%    | 5.57%           | 6.47%        | 0.69%              | 237.95        | 126.6%    |
| Barclays U.S. Aggregate Bond  | 89.32     | -0.27%    | -1.30%          | -2.60%       | -2.35%             | 112.07        | 25.5%     |

Source: FactSet

**The Nasdaq Composite index (Nasdaq) rallied +1.4% last week (ended 5/24/24) as Technology (Tech) stocks lead a surge in equity values in May.** The Nasdaq's May gain (month-to-date, MTD, through 5/24) of +8.1% leads major U.S. equity indices, including the S&P 500 index, which increased +5.3%. But within the S&P 500, its largest sector, Technology, surged +11.6% MTD, outpacing the other ten major sectors. We attribute a combination of factors to Tech's outperformance but emphasize solid earnings growth and optimism over generative artificial intelligence (GenAI) investment. Through Friday, 96% of S&P 500 companies had reported first quarter financial results with total index earnings (weighted average of earnings contribution from each company) tracking up more than +6% year-over-year (Y/Y), exceeding the +3% consensus estimate at the end of March. The index's largest sector, Technology (comprising 31% of total S&P 500 value as of 5/24/24), posted 1Q24 Y/Y earnings growth of +26%, contributing nearly 500 basis points of the +6% growth. The sector's earnings growth upside was largely driven by the semiconductor and software groups as several of the largest constituents not only reported solid Y/Y results, but also significantly exceeded estimates. Semiconductor companies, in particular, enjoy strong demand for chips that support GenAI investment as spending levels on data centers and large language models (LLMs) have surged over the past 12 months. GenAI investment shows little sign of slowing down (spending is expected to remain at high levels), although growth rates are likely to slow as Y/Y data must compare to the beginning of the surge in 2023. We remain concerned that equity market gains are again concentrated in a narrow group of stocks. When looking at the second quarter (includes April and May-to-date), Technology is one of just four sectors to trade higher, while seven sectors are lower (nearly a two-month period). While strong earnings performance from the S&P 500's largest segment could bode well for additional index gains over the near-term, we believe that leadership from other sectors would be a healthier sign of sustained gains ahead.

**Federal Reserve Bank (Fed) meeting minutes lean toward higher interest rates for longer.** Three weeks after the Fed's most recent policy meeting concluded on 5/1/24, the meeting minutes confirmed that Fed officials, while not anticipating the need to increase its overnight bank lending fed funds rate above the current 5.25% to 5.50% target range, were concerned that inflation gains (lower) made in 2023 had stalled, and a return to the Fed's +2% inflation target could take longer than expected. This led to modestly higher U.S. Treasury yields as well as equity market weakness mid-week, but on Friday, the S&P 500 rallied and interest rates remained below levels seen as recently as late April. As of 5/24/24, the U.S. 2-year Treasury yield was 4.95%, close to the 5.03% level on 4/30/24, and the 10-year Treasury yield was 4.47%, compared to its recent high of 4.70% on 4/25/24. In our view, the Fed is unlikely to reduce the fed funds rate at upcoming meetings in June and July, but it could weigh those cuts in September.

**With 1Q24 earnings season largely winding down this week, we believe investor attention will shift to economic data and inflation data.** On Thursday, the Bureau of Economic Analysis (BEA) will update the first quarter U.S. economic growth (gross domestic product, GDP) data, previously reported in April, but consensus estimates reflect no change to the +1.6% annual growth. On Friday, the BEA will report April personal income and spending, as well as the personal consumption expenditures price index (PCE PI), which is the Fed's preferred measure of consumer inflation. Both income and spending are estimated to slow from March levels. The PCE PI is estimated at +2.7%, unchanged from +2.7% in March.

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**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.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at [www.bea.gov](http://www.bea.gov).

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Y/Y is year-over-year and M/M is month-over-month.

The U.S. Personal Consumption Expenditures (PCE) Price Index is an indicator of the growth in consumer spending and measures the value of goods and services purchased by persons who reside in the U.S. It is reported monthly by the Bureau of Economic Analysis. PCE inflation is the percentage rates of change in the price index for personal consumption expenditures (PCE).

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth. The minutes from the most recent FOMC meeting is [here](#).

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet

Generative artificial intelligence (GenAI): a subset of artificial intelligence and machine learning that can produce new text, images, video, or audio clips from users' prompts. GenAI is trained on large datasets of training data, called a large language model (LLM), to find statistical patterns in the LLM. The GenAI uses those statistical relationships to generate unique responses to prompts. Our discussion regarding broad increases in GenAI investment are taken from post-earnings reports commentary from S&P 500 management teams after reporting early 2024 financial results.

Within the S&P 500 industry sector Information Technology (as compiled by MSCI and S&P Global) there are six sub-industry groups: Communications equipment, Electronic Equipment Instruments & Components, IT Services, Semiconductors & Equipment, Software, and Technology Hardware.

Personal Income and Outlays is reported monthly by the U.S. Bureau of Economic Analysis. Personal Income is the income received by all persons from all sources. Personal Outlays is spending by consumers on goods and services, personal interest payments and current transfer payments.