The Weekly Market Update – 6/12/23: Are We Really in a New Bull Market?

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,298.86	0.39%	4.61%	11.96%	4.03%	4,796.56	11.6%
Dow Jones Industrial Average	33,876.78	0.34%	1.81%	2.20%	2.69%	36,799.65	8.6%
NASDAQ Composite	13,259.14	0.14%	8.49%	26.68%	9.75%	16,057.44	21.1%
Russell 2000	1,865.71	1.90%	3.51%	5.93%	0.09%	2,442.74	30.9%
MSCI EAFE (USD)	2,110.45	0.61%	0.85%	8.57%	3.56%	2,398.71	13.7%
MSCI Emerging Markets (USD)	1,002.33	1.83%	1.22%	4.80%	-6.99%	1,444.93	44.2%
Bloomberg Commodity Index	100.96	1.14%	-4.31%	-10.50%	-23.13%	237.95	135.7%
Barclays U.S. Aggregate Bond	89.79	-0.19%	-1.43%	1.02%	-4.77%	112.07	24.8%

Source: FactSet

On Friday, 6/9/23, the widely followed large-company S&P 500 equity index closed at 4,299, which was 20.2% above the closing level of 3,577 on 10/12/22. That October level was the lowest closing price in the current cycle and reflected a -25.4% decline from the early-January 2022 market peak (the S&P 500 closed at 4,796 on 1/3/22, still its all-time closing high). Defining a bull market as an increase of at least 20% from a market low, the recent rally in the S&P 500 meets that definition. At the same time, however, the index remains 10.4% below the all-time high referenced above, and we don't call the end of the 2022 bear market (a peak-to-trough decline of at least 20%) until the index returns to the all-time high. We attribute the +20% market rally to several factors, but primarily to an investor expectation that the U.S. economy, while slowing, will avoid a recession (defined by the National Bureau of Economic Research as a "significant decline in economic activity…that lasts more than a few months") and pull off a "soft landing." At the same time, many believe that the U.S. Federal Reserve Bank (Fed) will soon halt its policy of raising its short-term interest rate (fed funds) target as inflation falls, and believe earnings growth for the S&P 500, after slowing to +2% in 2023, will accelerate to +12% in 2024 (according to FactSet, which compiles earnings estimates from Wall Street analysts). We caution that risks in this scenario remain; inflation could remain stubbornly above the Fed's 2% goal, labor market (from the Bureau of Labor Statistics. BLS) trends could weaken, and 2024 earnings growth estimates could be revised lower. The uncertainty of outcomes in an economy that is slowing is likely, in our view, can cause renewed equity market volatility, and potential pullbacks. Uncertain trends include GDP growth: 2022 fourth quarter (4Q22) annualized GDP of 2.6% slowed to 1.3% in 1Q23, and an estimated 0.6% in 2Q23 (per FactSet); as well as a potential economic lag from the full impact of and aggressive Fed rate hikes over the past 15 months. While we would be surprised if the S&P 500 drops back to the October 2022 lows, we do not see a strong enough economy to drive the index to new highs in 2023 or early 2024. We expect U.S. equities to continue to trade in a range and believe most investors should stay invested but remain diversified across industry sectors.

The U.S. Federal Reserve's Open Market Committee (FOMC) could end this week's meeting without raising its fed funds target range. The two-day FOMC meeting (the fourth 2023 meeting) concludes on 6/14/23; after raising its bank lending overnight fed funds rate at each of the past 10 meetings (beginning March 2022), many believe the Fed will hold its fed funds target range unchanged at 5.00% to 5.25%. Following the previous FOMC meeting in May, Fed Chair Jerome Powell opened the possibility of a pause in its hiking policy at the June meeting. Since that meeting, however, April inflation (consumer price index from the BLS) was higher than estimates (month-to-month), and the U.S. economy created more jobs than expected in May. Yet the debate continues that the Fed will hold rates steady ("pause") at the June meeting, but keep open the possibility for an increase at the July meeting (a Fed "skip"). This suggests that inflation remains a concern.

In addition to the FOMC meeting ending Wednesday, this week we are watching the May data for inflation (CPI). May CPI is expected to show a 4.2% year-over-year (Y/Y) increase, down from 4.9% in April, and the lowest monthly Y/Y number since April 2021. Core CPI (excluding food and energy) is expected to remain above 5%, at 5.2%. Core CPI has proved more stubborn due to housing costs and travel demand, and the Fed will be watching for wage pressures as well. The FOMC will see the report during its meeting.

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