The Weekly Market Update – 2/12/24: Another Week, Another Record High

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,026.61	1.37%	5.38%	5.38%	23.30%	5,026.61	0.0%
Dow Jones Industrial Average	38,671.69	0.04%	2.61%	2.61%	13.45%	38,726.33	0.1%
NASDAQ Composite	15,990.66	2.31%	6.52%	6.52%	38.03%	16,057.44	0.4%
Russell 2000	2,009.99	2.41%	-0.84%	-0.84%	4.04%	2,442.74	21.5%
MSCI EAFE (USD)	2,225.20	0.09%	-0.49%	-0.49%	5.94%	2,398.71	7.8%
MSCI Emerging Markets (USD)	995.53	0.74%	-2.76%	-2.76%	-3.49%	1,444.93	45.1%
Bloomberg Commodity Index	96.95	0.29%	-1.72%	-1.72%	-13.28%	237.95	145.4%
Barclays U.S. Aggregate Bond	90.09	-0.88%	-1.75%	-1.75%	-1.54%	112.07	24.4%

Source: FactSet

The widely followed, large-company S&P 500 equity index closed at 5,027 on Friday, 2/9/24, an all-time closing high. The index, after trading lower in the first week of 2024, has moved higher for five consecutive weeks and first made a new all-time high on 1/19/24. As of 2/9/24 (six weeks into the new year), the S&P 500 gain was +5.4% (price return, not including dividends) and the large-company, growth- and technology-centric Nasdaq Composite index rallied +6.5%. This extends a rally that began at the end of October, leading to an S&P 500 gain of +22.1% (from 10/27/23 to 2/9/24) with only one down week in the past 15 weeks. We attribute ongoing equity market strength to solid economic, inflation, and earnings data that are validating investor expectations for an economic "soft landing" (no recession) and a resumption of corporate earnings growth (for the S&P 500) in 2024. Largely due to a strong January jobs report (Bureau of Labor Statistics, BLS) that reflected impressive growth in nonfarm payrolls (+353 thousand) and wages (average hourly earnings +4.5% year-over-year), the Atlanta Federal Reserve Bank GDPNow estimate, which calculates current quarter contribution of gross domestic product GDP, reflects first quarter 2024 (1Q24) GDP growth of +3.4% (as of 2/8/24). While only limited data (less than one month) has fed into the model at this point, the early trend suggests that the first quarter 2024 economy is growing faster than the FactSet consensus (from Wall Street economists) estimate of +0.7%. With consumer inflation (consumer price index reported by BLS) moving lower, investors have priced in expectations for the Federal Reserve Bank (Fed) to begin lowering its overnight fed funds interest rate target in early-to-mid 2024, but not at the next Fed meeting on 3/20/24.

S&P 500 4Q23 earnings growth was good last week, driving an uptick in estimates for the quarter. Through early Monday, 2/12/24, two-thirds of S&P 500 constituents had reported financial results for the December quarter; reported earnings have increased +1.0% and the full-quarter FactSet consensus estimate (from Wall Street analysts) moved to +2.8%. One week earlier, as of 2/2/24, reported earnings were down -0.8%, but now the quarter looks on pace to exceed the +1.0% estimate in place on 12/31/23 (at quarter-end). Revenue growth of +4.1% has also beat the consensus estimate (+3.0%), indicating some margin pressure embedded in results as earnings growth has lagged revenue growth. Full-year 2023 S&P 500 earnings per share (EPS) are on pace to increase +2.0% year-over-year (Y/Y), reflecting a slowdown from +4.5% in 2022. Two years of lackluster earnings growth potentially supports relatively high-growth expectations in 2024 as Y/Y comparisons become easier. 2024 consensus estimates reflect S&P 500 Y/Y EPS growth of +10.8% to $242 per share. That estimate has trended modestly lower since year-end, which is somewhat surprising given better-than-expected economic data over the past several months. This means that S&P 500 gains since late October were driven not by upside to earnings growth, but by investors willing to pay a higher multiple of earnings (price-to-earnings, or P/E). As of 2/9/24, the S&P 500 traded at 20.8x the 2024 consensus EPS estimate, up from 19.6x at year-end.

Inflation takes the spotlight this week as the January CPI report is due on Tuesday, 2/13/24. Headline CPI is estimated at +2.9%, compared to +3.4% in December, while core CPI (excludes food and energy) is estimated at +3.7% compared to +3.9% the prior month. Lower inflation trends are set to resume after December was higher than expected, and also important to watch is the month-to-month (M/M) data. A M/M increase of +0.3% annualizes at +3.6%, while +0.2% annualizes at +2.4%. Sustained inflation progress requires not only improving Y/Y numbers, but M/M data as well.

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