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## Weekly Market Guide

**Equities are undergoing a bit of a pullback to begin Q2.** The S&P 500 index is -4.3% off its highs, along with the Russell 2000 -8.5%, Nasdaq Composite -4.5%, and Equal-Weighted S&P 500 -6.2%. **Middle East tensions played a role, but the big catalyst has been higher inflation and interest rates.** For example, the US 10-year Treasury yield has risen to 4.69% from 4.2% since March end, due to a third consecutive “hot” CPI report and a consequential delay in expected Fed rate cuts.

**Is this a normal pullback or something worse? Our opinion, normal pullback.**

### Areas of focus:

- **Inflation/Fed/Interest Rates-** The market was ahead of itself as it relates to Fed cuts and is now in an adjustment phase. Inflation looks to still be headed in the right direction. However, it is a risk if inflationary reports remain stubbornly high. PCE- the Fed’s favored measure of inflation- comes on 4/26 (consensus estimate is a moderate 0.3% m/m).
- **Macro-economy-** The economy is in decent shape. March retail sales were strong (maybe aided by an early Easter) and industrial production was better. Q1 GDP gets reported next week with a 2% q/q consensus estimate (following 3.4% in Q4).
- **Middle East-** As of now, the market does not seem overly concerned. Nonetheless, geopolitics are a wild card and can cause volatility.
- **Earnings-** Typically, the bar is set low enough to allow for favorable overall results. Given economic strength in Q1, the odds favor a good quarter. Our attention will center more on company expectations and guidance for the balance of the year. It’s still early, but the tune from several companies (across consumer, banking, industrial areas) has contained some caution.

**The recent technical breakdown, in conjunction with the timing shift for Fed rate cuts, raises the odds that the market is in pullback mode.** The S&P 500’s break below its 20- and 50-day moving average signals slowing momentum. Five heavy downside-volume days since the market peak are evidence that investors are willing to book some profits. In the short term, several indicators are near levels that suggest a relief bounce soon. However, pullbacks are often a process, and our best guess is that the lows of this decline have not been seen yet. We view potential S&P 500 downside as ~4750 (would be a -10% decline from the peak and another -5% from current prices).

Absent a quick reversal on inflation/Fed action, equities will probably become more range-bound. Honestly, we do not view this as a bad thing following the +28% rally from late October through March. **Pullbacks are a normal market occurrence, can offer healthy digestion (following overbought stretches), and create opportunity.**

Equity Market Indices	Price Return	
	Year to Date	12 Months
Dow Jones Industrial Avg	0.3%	11.5%
S&P 500	5.9%	22.1%
S&P 500 (Equal-Weighted)	1.2%	10.2%
NASDAQ Composite	5.7%	30.9%
Russell 2000	-2.9%	10.5%
MSCI All-Cap World	3.5%	14.9%
MSCI Developed Markets	0.3%	4.6%
MSCI Emerging Markets	-1.4%	0.9%
NYSE Alerian MLP	6.6%	19.6%
MSCI U.S. REIT	-8.9%	0.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	15.8%	9.3%
Energy	12.8%	4.1%
Information Technology	9.1%	29.8%
Industrials	6.9%	8.8%
<b>S&amp;P 500</b>	<b>5.9%</b>	-
Financials	5.2%	12.9%
Materials	3.6%	2.4%
Consumer Staples	2.3%	5.9%
Health Care	1.6%	12.1%
Consumer Discretionary	-0.1%	10.3%
Utilities	-1.0%	2.2%
Real Estate	-10.6%	2.0%

Source: FactSet

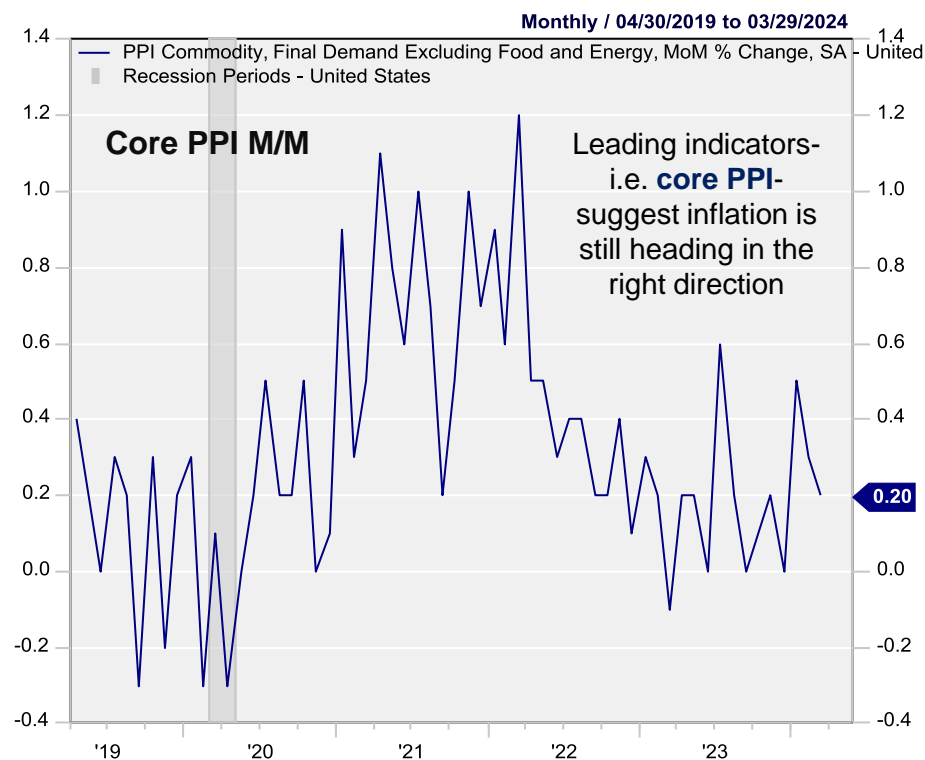
## Macro: US

Overall, the economy continues to perform well. March retail sales beat estimates significantly, as the control group rose +1.1% m/m (vs 0.4% est.) on top of 0.5% in positive revisions to the prior two months. An early Easter possibly aided the report (i.e. e-commerce rose 2.74% m/m), but nonetheless this reflects healthy consumption. Strong retail sales and better industrial production (which rose 0.4% m/m in March) should support healthy Q1 economic growth (Q1 GDP is reported next week).

Additionally, following the “hot” March CPI report, it was encouraging to see March PPI come in at just 0.2% m/m. The next major inflationary report to monitor is PCE (the Fed’s favored measure of inflation) which is reported on 4/26- the consensus estimate is a moderate 0.3% m/m.

Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	03/30	1,817K	1,800K	1,789K
Initial Claims SA	04/06	211.0K	215.0K	222.0K
PPI ex-Food & Energy SA M/M	MAR	0.20%	0.20%	0.30%
PPI ex-Food & Energy NSA Y/Y	MAR	2.4%	2.3%	2.1%
PPI SA M/M	MAR	0.20%	0.30%	0.60%
PPI NSA Y/Y	MAR	2.1%	2.2%	1.6%
Export Price Index NSA M/M	MAR	0.30%	0.35%	0.70%
Import Price Index NSA M/M	MAR	0.40%	0.45%	0.30%
Michigan Sentiment NSA (Preliminary)	APR	77.9	79.7	79.4
Empire State Index SA	APR	-14.3	-7.0	-20.9
Retail sales ControlGroup SA M/M	MAR	1.1%	0.40%	0.30%
Retail sales Ex AutoFuel SA M/M	MAR	0.95%	0.30%	0.49%
Retail Sales ex-Auto SA M/M	MAR	1.1%	0.50%	0.60%
Retail Sales SA M/M	MAR	0.70%	0.40%	0.90%
Business Inventories SA M/M	FEB	0.40%	0.40%	0.0%
NAHB Housing Market Index SA	APR	51.0	51.0	51.0
Building Permits SAAR (Preliminary)	MAR	1,458K	1,515K	1,523K
Housing Starts M/M	MAR	-14.7%	-2.7%	12.7%
Housing Starts SAAR	MAR	1,321K	1,480K	1,549K
Capacity Utilization NSA	MAR	78.4%	78.6%	78.2%
Industrial Production SA M/M	MAR	0.40%	0.40%	0.40%

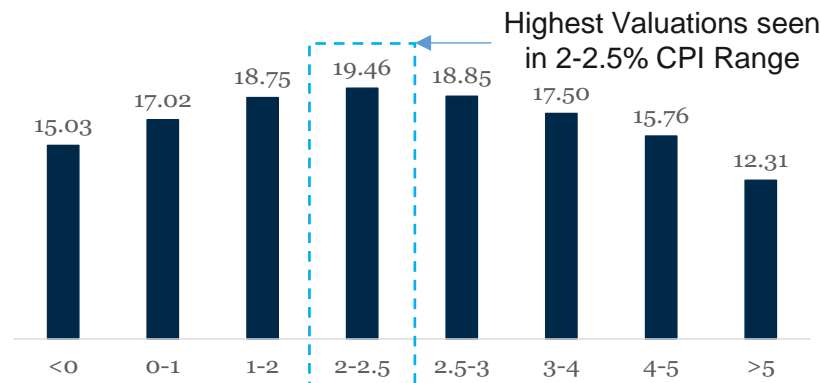
Source: FactSet



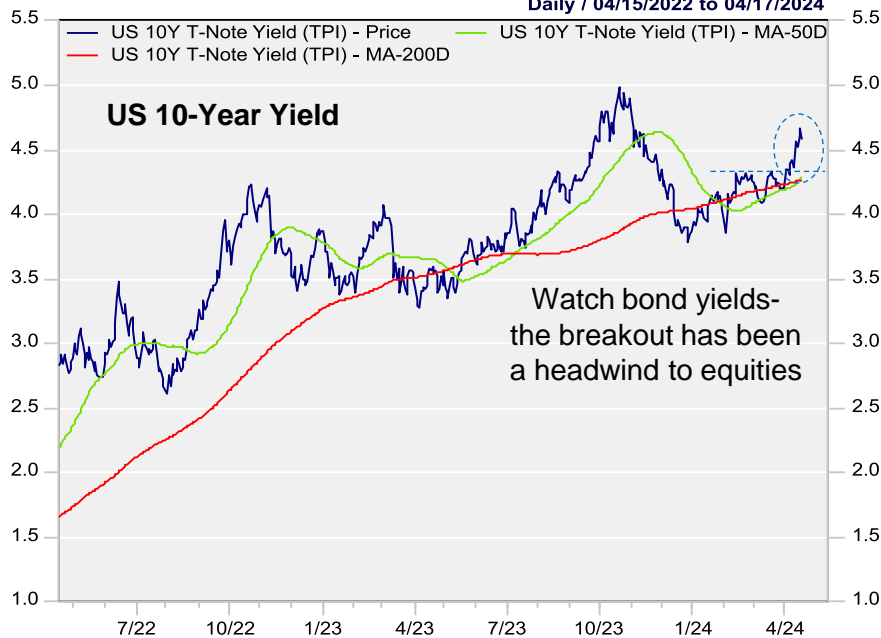
## Inflation & Bond Yields

Bond yields broke out to begin Q2 with the US 10-year Treasury yield up to 4.69% from 4.2%. Healthy economic growth has been a contributor, but the bigger reason was the third consecutive “hot” inflation report in March. 5-year inflation breakevens broke out above the peak from last Fall, which is delaying the timeline for potential Fed cuts and causing some market anxiety. 10-year inflation breakevens are still below their peak, suggesting investors are not as worried about inflation over the longer-term. We still believe inflation is on a downward path, albeit “bumpier” than desired (in part due to economic strength). Nonetheless, the path of inflation and bond yields will remain key market influences ahead, given the highest valuations are seen when CPI is in the 2-2.5% range.

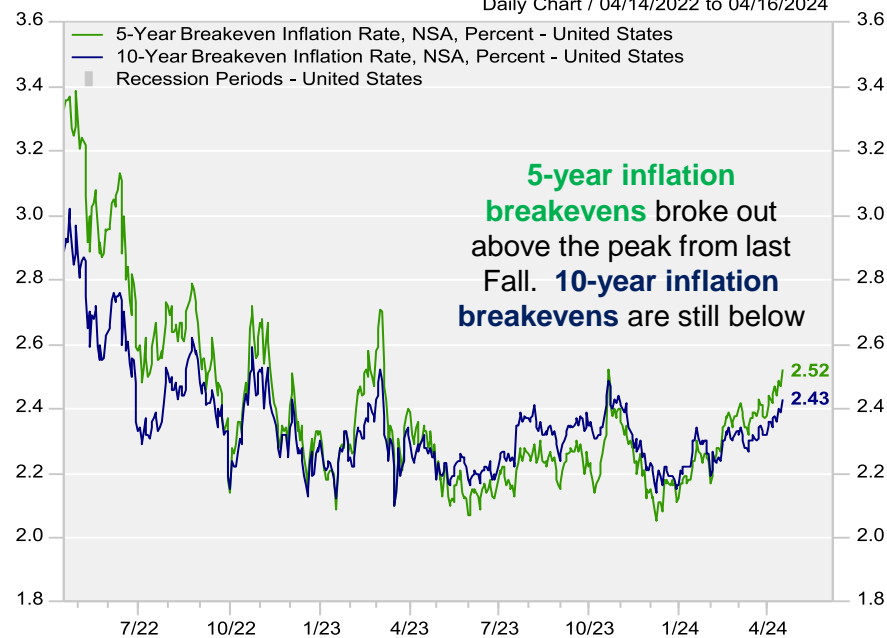
### Average P/E based on Inflation Range (since 1954)



Daily / 04/15/2022 to 04/17/2024



Daily Chart / 04/14/2022 to 04/16/2024

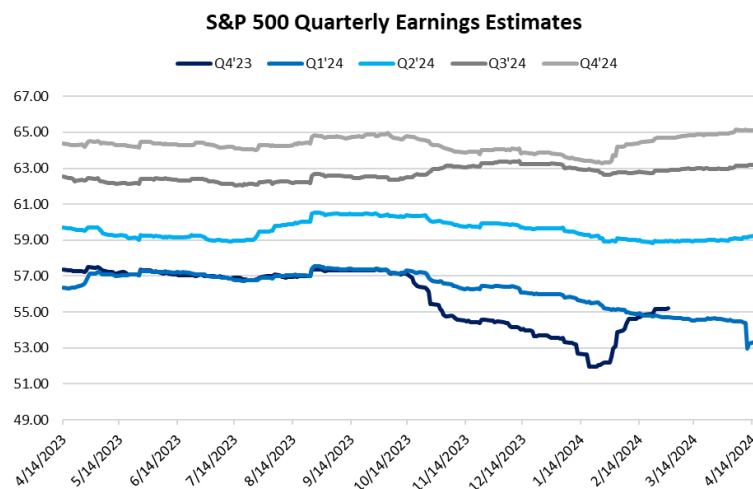


Source: FactSet

## Q1 Earnings Season

Q1 earnings season is in its early stages, kicking off last Friday with the banks. Typically, the bar is set low enough to allow for favorable overall results. And given economic strength in Q1, the odds favor a good quarter. This has been the case so far with 70% of companies beating earnings estimates for a 10.3% aggregate surprise.

Our attention will center more on company expectations and guidance for the balance of the year. It's still early, but the tune from several companies (across consumer, banking, industrial areas) has contained some caution. Along with macro volatility, this is contributing to weak price reactions on average, i.e. the majority of reporters have traded lower by an average of -1.6%. Earnings season ramps up over the coming weeks with 223 S&P 500 companies reporting by month-end.

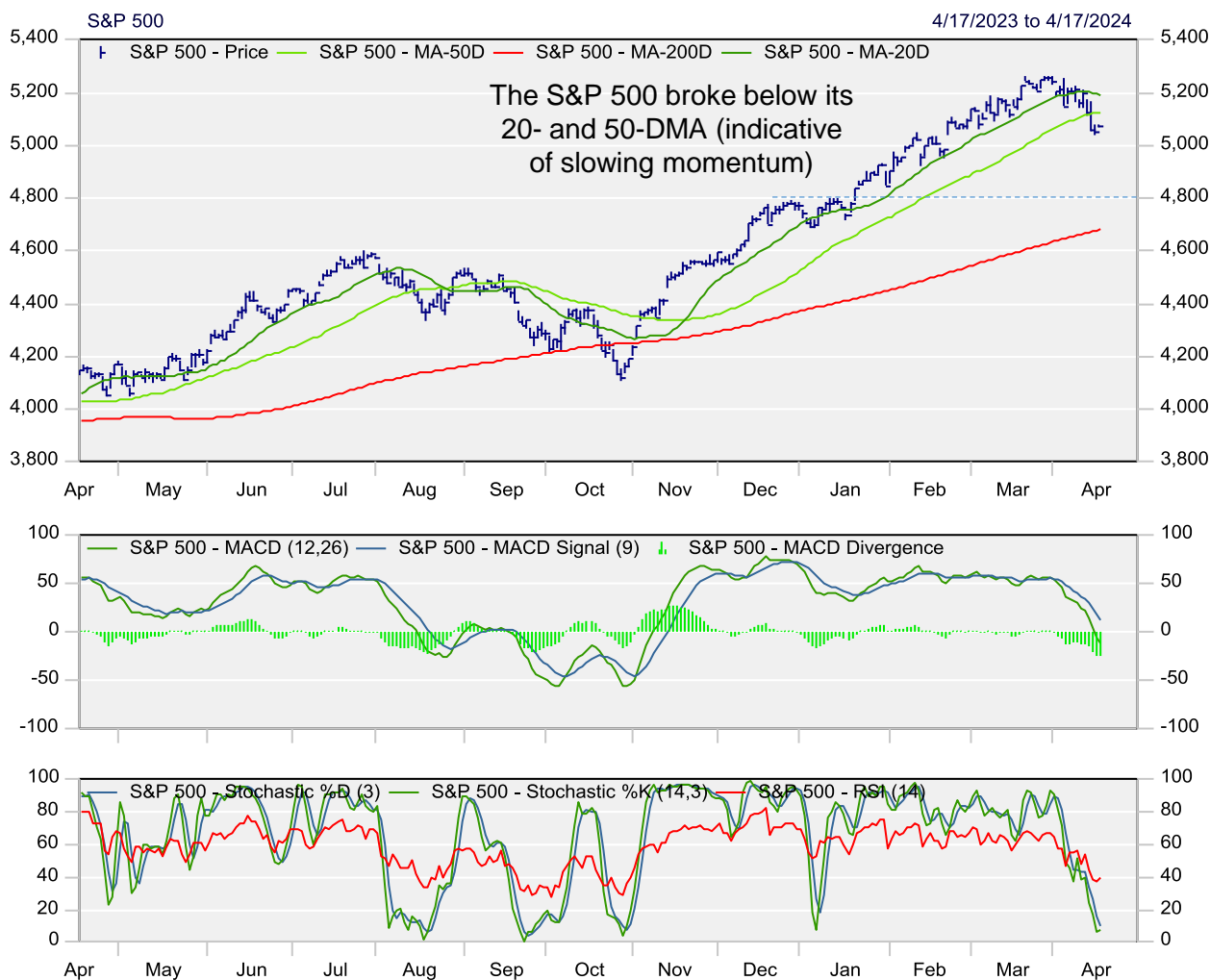


Forward estimates drifting higher ahead of Q1 earnings

S&P 500 Sector	% Q1 Est. EPS Growth		% EPS	Est. Chg Since 12/31/23			Avg 1D Price	3-Day	YTD	2024 EPS	2025 EPS	P/E	
	Y/Y	Q/Q	Surprise	Q1'24	2024	2025	Reaction	Reaction	Return	Growth	Growth	2024	2025
<b>S&amp;P 500</b>	<b>1.9</b>	<b>-3.1</b>	<b>10.3</b>	<b>-4.5%</b>	<b>-0.7%</b>	<b>0.5%</b>	<b>-1.3%</b>	<b>-1.6%</b>	<b>5.47</b>	<b>10.7%</b>	<b>14.1%</b>	<b>20.92</b>	<b>18.34</b>
Communication Services	25.6	-5.0	-	2.0%	2.5%	3.0%	1.8%	1.8%	15.62	17.9%	13.9%	19.55	17.16
Information Technology	19.9	-12.7	11.8	1.1%	1.7%	3.0%	-	-	8.13	17.6%	17.8%	28.43	24.14
Financials	7.5	40.7	12.4	3.8%	1.2%	1.0%	-1.3%	-1.6%	5.24	12.6%	11.3%	15.11	13.57
Consumer Discretionary	14.7	-10.3	19.4	0.1%	0.7%	-0.3%	-9.2%	-12.4%	-0.61	11.8%	15.8%	26.01	22.46
Health Care	-24.8	-11.6	2.9	-24.0%	-6.0%	-1.4%	-0.2%	0.5%	1.41	10.2%	17.8%	19.64	16.67
Utilities	20.6	11.7	-2.9	-2.4%	-0.2%	0.6%	-	-	-0.35	8.8%	8.4%	15.71	14.49
Industrials	-1.8	-17.0	4.1	-7.9%	-1.9%	-0.9%	-0.6%	-0.4%	6.09	7.8%	15.3%	21.77	18.88
Consumer Staples	-0.6	-6.1	11.5	-4.3%	-1.2%	-1.5%	1.3%	-2.4%	2.38	4.5%	8.1%	19.98	18.48
Real Estate	1.6	-1.4	-	-0.7%	0.2%	0.2%	-5.5%	-5.5%	-10.64	1.3%	5.8%	15.64	14.79
Materials	-26.5	-1.0	-	-15.7%	-5.0%	-2.3%	-	-	3.83	-2.2%	15.6%	21.17	18.31
Energy	-23.8	-13.1	-	-10.8%	-4.9%	-2.3%	-	-	12.78	-3.9%	9.2%	13.05	11.95

Source: FactSet

## Technical: S&P 500



Source: FactSet

The recent technical breakdown, in conjunction with the timing shift for Fed rate cuts, raises the odds that the market is in pullback mode.

The S&P 500's break below its 20- and 50-day moving average signals slowing momentum. Additionally, five heavy downside-volume days since the market peak are evidence that investors are willing to book some profits.

In the short term, several indicators are near levels that suggest a relief bounce soon. However, pullbacks are often a process, and our best guess is that the lows of this decline have not been seen yet. We view potential S&P 500 downside as ~4750 (would be a -10% decline from the peak and another -5% from current prices).

Absent a quick reversal on inflation/Fed action, equities will probably become more range-bound. Honestly, we do not view this as a bad thing following the +28% rally from late October through March. Pullbacks are a normal market occurrence, can offer healthy digestion (following overbought stretches), and create opportunity.

## Returns (and Drawdowns) Following Best Q1 Returns

Q1'24 offered one of the best historical performances to begin the year at +10.2%. This typically bodes well for returns over the remainder of the year. For example, following the top 20 Q1's since 1950, the S&P 500 has continued to trade higher through year-end 85% of the time for an average additional price return of 9.8%. The thought process is that strength often begets strength. Nevertheless, pullbacks are also a normal market function. These same periods have experienced an average 9.9% drawdown within the remaining 9 months of the year as well.

History still suggests odds are elevated for a higher market by year-end. However, history also suggests pullbacks will transpire.

<u>Rank</u>	<u>Year</u>	<u>1Q Returns</u>	<u>3/31 - 12/31</u>	<u>Drawdown</u>
1	3/31/1975	21.59%	8%	-14%
2	3/31/1987	20.45%	-15%	-34%
3	3/31/1976	13.95%	5%	-8%
4	3/29/1991	13.63%	11%	-6%
5	3/31/1998	13.53%	12%	-19%
6	3/31/1986	13.07%	1%	-9%
7	3/31/2019	13.07%	14%	-7%
8	3/31/1967	12.29%	7%	-7%
9	3/30/2012	12.00%	1%	-10%
10	3/31/1961	11.96%	10%	-4%
11	3/29/2024	10.16%	?	
12	3/28/2013	10.03%	18%	-6%
13	3/31/1995	9.02%	23%	-3%
14	3/31/1971	8.86%	2%	-14%
15	3/31/1983	8.76%	8%	-7%
16	3/31/1954	8.59%	34%	-4%
17	3/29/1985	8.02%	17%	-8%
18	3/31/2023	7.03%	16%	-10%
19	3/30/1956	6.60%	-4%	-11%
20	3/31/1989	6.18%	20%	-8%
		Average	9.83%	-9.88%
		Win Rate	85%	

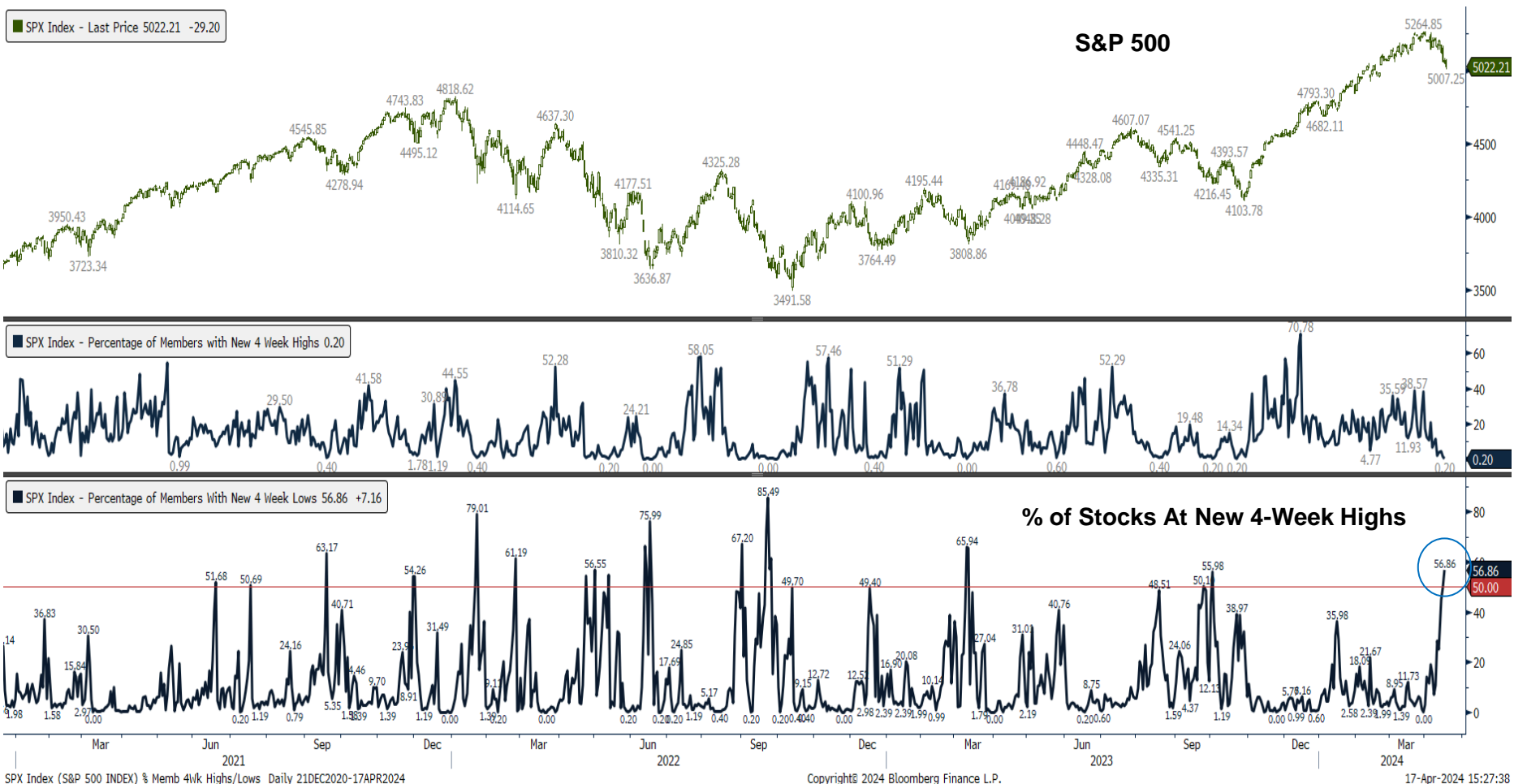
-5% (so far)

Normal pullbacks transpired in the periods when Q1 was strong

Source: FactSet

## New 4-Week Lows

The percentage of stocks making new 4-week lows has climbed to 57%. Moves into the 50-60% threshold are generally good places to start looking for at least a relief bounce in the context of an uptrend.



Source: Bloomberg

## Short-Term Nearing Oversold Enough For A Relief Bounce



Source: FactSet (M24-474222)

The percentage of stocks above their 20- and 50-day moving averages is also near levels where oversold bounces can occur.

Pullbacks are often a process, and there could be more to go in this market decline before the dust settles. Importantly, the market is coming from a position of strength and needed to digest some of its sharp gains since October.

We believe this pullback will be normal, healthy, and create opportunity to accumulate favored stocks. Many areas are seeing short-term weakness within solid intermediate-term uptrends.

### Sector Trends and Moving Averages

Sector	20 DMA % Above	50 DMA % Above	200 DMA % Above	Index % From 52 Week High
Financials	3	21	85	-5.9%
Energy	35	96	83	-4.0%
Industrials	10	44	78	-3.9%
Technology	8	25	74	-5.8%
Materials	7	32	71	-4.4%
Cons. Discretionary	10	15	65	-5.5%
Health Care	3	10	60	-6.4%
Comm. Services	9	32	55	-3.3%
Consumer Staples	8	45	50	-3.8%
Real Estate	0	3	24	-11.7%
Utilities	7	17	23	-8.5%
<b>S&amp;P 500</b>	<b>8</b>	<b>28</b>	<b>65</b>	<b>-4.6%</b>



## IMPORTANT INVESTOR DISCLOSURES

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### Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

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The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

**Europe: DAX** (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

**Asia: Nikkei** is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

Keep in mind that individuals cannot invest directly in any index, and index performance does not include transaction costs or other fees, which will affect actual investment performance. Individual investor's results will vary. Past performance does not guarantee future results. Future investment performance cannot be guaranteed, investment yields will fluctuate with market conditions.