Monthly Mosaic | May 3, 2024

Perspective

As anticipated, on May 1st the Fed announced they would leave rates unchanged citing healthy economic conditions and strong job gains. The Committee noted the lack of progress in their assessment of inflation, yet when questioned by one reporter about "stagflation" Chairman Powell vehemently responded "I don't see the STAG or the FLATION!" noting that GDP growth is solid at 3% and inflation is running under 3%. Despite maintaining the Fed Funds Rate at 5.25% - 5.50%, the Fed has taken a more dovish stance on the Fed Balance sheet, adjusting the level of maturing Treasuries to roll off each month from $60 billion down to $25 billion. The monthly roll off of mortgage-backed securities remained unchanged at $35 billion. Markets responded favorably during Powell's commentary rallying over 1% but gave all of this back by market close trading down slightly for the day.

Though investors are becoming antsy regarding the Fed's next rate decision, with bets on the timing and scale of anticipated cuts being far too aggressive, we would point to the Fed's guidance toward more patience. We still believe inflation is backward looking and dependent both on the strength of the economy and current wage rates. As wage rate growth has slowed from a high of 5.8% in 2022 to recent growth of 4.1%, the trend is moving in the right direction. This downward trend is consistent when we look deeper into the labor numbers and the workforce participation for ages 25-54 has reached a two-decade high at 83.5% and the job opening numbers (JOLT) has reached the lowest level since February of '21 and there is now only 1.3 jobs available per unemployed worker. GDP growth remains solid but appears to be slowing slightly. If that deceleration of growth for both the labor market and economy continues we would anticipate further deceleration of inflation.

Possibly the biggest question today is the disconnect between the Fed's decision to reduce the level of Treasuries rolling off the balance sheet (less hawkish) at the same time they insist on maintaining the Fed Funds Rate at the current level. Maintaining short-term rates at current levels appears to create a disincentive to extend long-term credit for economically accretive capital projects. But for savvy investors this higher rate environment has created an opportunity to lock in high quality bonds providing very attractive income levels for their retirement years.

Though markets struggled through the month of April, earnings were better than forecast with 75% of stocks reporting and outpacing expectations by over 9%; U.S. companies are showing their resilience by adapting to a tighter credit environment and still generating growth. Globally, the April market pull back was muted but the global economy appears to be decelerating much like locally. Central bank policy rates have been neutral since late 2023 and one would expect that it is merely a matter of time before policy rates across the globe are adjusted downward. The lower valuations abroad and an easing credit market would be favorable for both international developed and emerging markets, bolstering the case for a diversified investment allocation.

Monthly Recap

- Markets opened April down around uncertainty of future FED action as economic data was not supporting a scenario where the FED would be likely to cut rates.
- The conflict in the Middle East heated up when Iran launched an attack on Israel with over 300 drones and missiles, most of which were intercepted. Israel countered the attack with a measured response on an Iranian air base.
- The Senate passed a $95 billion war aid bill to Ukraine, Israel and Taiwan. $61 billion is slated for Ukraine, $26 billion to Israel (with $9 billion dedicated toward humanitarian aid to Gaza) and the final $8 billion will be directed to countering Chinese aggression in the Indo-Pacific region.

Markets

	Total Return as of: 4/30/2024		
Market Indices	MTD %	YTD %	1-Year %
S&P 500 Index	-4.08%	6.04%	22.65%
NASDAQ Composite	-4.38%	4.53%	29.14%
Russell 2000 Index	-7.04%	-2.23%	13.28%
MSCI EAFE Index	-2.45%	3.08%	9.28%
MSCI Emerging Markets	0.53%	2.88%	10.16%
BBG US Aggregate Bond	-2.53%	-3.28%	-1.47%
WTI Crude Oil	0.79%	22.53%	15.64%
Gold	5.17%	6.75%	1.41%

Interest Rates

	Close 4/30	Prior Month	Year Ago
Fed Funds Target	5.50%	5.50%	5.00%
6-Month US Treasury	5.40%	5.30%	4.97%
2-Year US Treasury	5.04%	4.69%	3.96%
10-Year US Treasury	4.68%	4.35%	3.43%

The Month Ahead

MAY 3RD
Unemployment Rate & Average Hourly Earnings

MAY 15TH
Consumer Price Index Report & Treasury Budget

MAY 17TH
Conference Board's Leading Index

MAY 23RD
S&P Global - U.S. PMI

MAY 31ST
Personal Spending & Personal Consumption Expenditures Index Report

Questions?

Your Wealth Management team is here to answer.

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