



WEEK OF MAY 6, 2024

# Market Update

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Equities rallied as soft economic data gave the Federal Reserve (Fed) more reasons to cut interest rates in 2024. Intermediate-term rates declined notably amid weak data and a slower pace of balance sheet tightening from the Fed.

## Quick Hits

- 1. Report releases:** Hiring slowed in April; 175,000 jobs were added against calls for 240,000.
- 2. Financial market data:** Equities rallied as soft economic data gave the Fed more reasons to cut rates in 2024.
- 3. Looking ahead:** Although the week will be light on economic data, several Fed members are expected to speak.

## Report Releases: April 29–May 3, 2024

### Conference Board Consumer Confidence Index April (Tuesday)

Consumer confidence surprisingly fell, with the index dropping to its lowest level since July 2022. Consumer views on current economic conditions soured because of high food and fuel prices.

- Expected/prior month consumer confidence: 104/103.1
- Actual consumer confidence: 97



### Federal Open Market Committee (FOMC) Rate Decision May (Wednesday)

The Fed left the federal funds rate unchanged after its May meeting, as expected. Fed Chair Jerome Powell said the Fed will remain data dependent when setting rates throughout the year.

- Expected/prior federal funds rate upper limit: 5.5%/5.5%
- Actual federal funds rate upper limit: 5.5%



### Trade Balance March (Thursday)

The trade deficit narrowed slightly in March; imports fell 1.6 percent and exports dropped 2 percent.

- Expected/prior trade deficit: -\$69.8 billion/-\$69.5 billion
- Actual trade deficit: -\$69.4 billion



### Employment Report April (Friday)

Hiring slowed in April, with 175,000 jobs added against calls for a more robust 240,000. Although this was solid on a historical basis, it represented the smallest monthly increase since October 2023.

- Expected/prior change in nonfarm payrolls: +240,000/+315,000
- Actual change in nonfarm payrolls: +175,000



## >> The Takeaway

- Consumer confidence and the labor market surprised to the downside in April.
- The Fed plans to remain data dependent; softer-than-expected jobs data pulled rate cut probabilities forward to September.

## Financial Market Data

### Equity

Index	Week-to-Date	Month-to-Date	Year-to-Date	12-Month
S&P 500	0.56%	1.84%	7.99%	28.23%
Nasdaq Composite	1.44%	3.19%	7.85%	36.08%
DJIA	1.14%	2.27%	3.21%	19.20%
MSCI EAFE	1.63%	1.32%	4.44%	11.32%
MSCI Emerging Markets	2.03%	1.56%	4.43%	11.64%
Russell 2000	1.71%	3.15%	0.85%	20.28%

Source: Bloomberg, as of May 3, 2024

The market took a risk-on approach, with emerging markets, the Russell 2000, and the Nasdaq Composite leading the way. Weaker-than-expected employment data gave the Fed a greater argument to begin cutting interest rates in 2024. As a result, the dollar fell 0.9 percent and growth international equities rallied. The potential for cuts also supported debt-burdened utilities, which fared best among all sectors, followed by consumer discretionary and real estate. Underperforming sectors included energy and financials.

### Fixed Income

Index	Month-to-Date	Year-to-Date	12-Month
U.S. Broad Market	1.27%	-2.06%	-0.48%
U.S. Treasury	1.06%	-2.24%	-2.21%
U.S. Mortgages	1.65%	-2.46%	-1.02%
Municipal Bond	0.61%	-1.02%	2.36%

Source: Bloomberg, as of May 3, 2024

Treasury yields reversed some of their recent increases in the belly of the curve. The area between 2- and 10-year maturities was lower on the back of the weaker employment report and the reduction in the rate of quantitative tightening for the Fed's balance sheet. The 10-year Treasury yield fell more than 17 basis points (bps), closing at 4.5 percent.

### >> The Takeaway

- Equities took a risk-on approach amid easing Fed policy and a softer dollar.
- Intermediate-term yields declined notably amid softer economic data and a slower pace of balance sheet tightening by the Fed.

## Looking Ahead

It will be a light week on the economic data front, though several Fed members are expected to speak.

- The week kicks off on Tuesday with the release of **consumer credit data** for March. This volatile figure is expected to increase \$16.5 billion. Also on Tuesday, Neel Kashkari, Minneapolis Fed president, is expected to speak. Kashkari was hawkish a couple of weeks ago when he questioned rate cuts for 2024.
- On Wednesday, we expect the release of MBA mortgage applications as we move into the spring home sale season.
- Finally, on Friday, the preliminary **University of Michigan consumer sentiment survey** for May will be released. It's expected to drop from 77.2 to 77.





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measures the performance of all issues listed in the Nasdaq Stock Market, except for rights, warrants, units, and convertible debentures. The Dow Jones Industrial Average is computed by summing the prices of the stocks of 30 large companies and then dividing that total by an adjusted value, one which has been adjusted over the years to account for the effects of stock splits on the prices of the 30 companies. Dividends are reinvested to reflect the actual performance of the underlying securities. The MSCI EAFE Index is a float-adjusted market capitalization index designed to measure developed market equity performance, excluding the U.S. and Canada. The MSCI Emerging Markets Index is a market capitalization-weighted index composed of companies representative of the market structure of 26 emerging market countries in Europe, Latin America, and the Pacific Basin. The Russell 2000® Index measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The Bloomberg US Aggregate Bond Index is an unmanaged market value-weighted performance benchmark for investment-grade fixed-rate debt issues, including government, corporate, asset-backed, and mortgage-backed securities with maturities of at least one year. The U.S. Treasury Index is based on the auctions of U.S. Treasury bills, or on the U.S. Treasury's daily yield curve. The Bloomberg US Mortgage Backed Securities (MBS) Index is an unmanaged market value-weighted index of 15- and 30-year fixed-rate securities backed by mortgage pools of the Government National Mortgage Association (GNMA), Federal National Mortgage Association (Fannie Mae), and the Federal Home Loan Mortgage Corporation (FHLMC), and balloon mortgages with fixed-rate coupons. The Bloomberg US Municipal Index includes investment-grade, tax-exempt, and fixed-rate bonds with long-term maturities (greater than 2 years) selected from issues larger than \$50 million. One basis point is equal to 1/100th of 1 percent, or 0.01 percent. Authored by the Investment Research team at Commonwealth Financial Network.®

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