Weekly Investment Insights

April 22, 2024

Key Takeaways:

- Increased gasoline prices cause retail sales to surge in March.
- Housing sector under pressure amid higher mortgage rates.
- Leading Indicators Index falls; consumers cautious of outlook.
- Geopolitical tensions and inflation concerns lead equities lower.
- Yields continue higher on uncertain Fed path.
- Commodities higher led by natural gas and gold prices.

Weekly Economic Recap –

Housing Data Under Pressure

Consumers continued to spend in March as retail sales increased more than expected (0.7% vs. 0.4% est.). The increase at the headline level was attributed to a sharp rise in gas prices, which caused consumers to increase spending at gasoline stations. The largest growth at the core level (excluding gas and autos) came from online retailers.

Permits to build new homes, a proxy for future construction, fell at the fastest pace in six months in March with the largest declines in applications coming from the Northeast.

Housing starts fell at the fastest pace since April 2020 with all regions except the West declining. Single-family construction fell by 12.4% for the month, while multi-family unit construction fell by 21.7%.

Sales of existing homes fell more than expected in March and by the most since November 2022. Sales of homes fell across all regions, except the Northeast. The median price of an existing home was $393,500, up 4.8% from the year before. Inventory of homes improved slightly (to 3.2 months) but still remain well below the 20-year average (5.4).

The Leading Economic Indicators Index fell more than expected in March (-0.3% MoM) attributed to consumer sentiment, the interest rate spread, new orders and building permits.

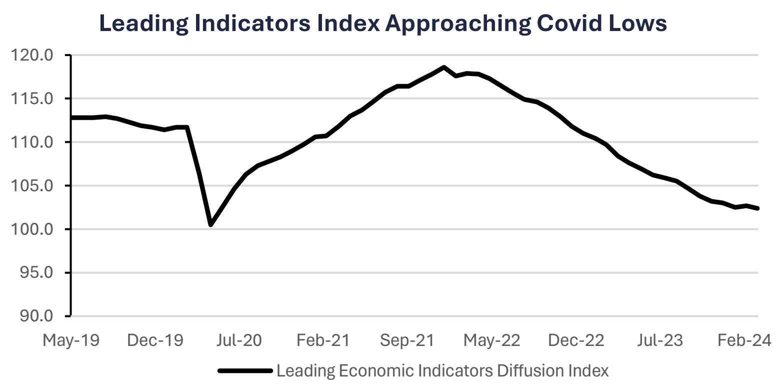
Weekly Market Recap –

Stubborn Inflation Causes Global Equity Selloff; Yields Rise

Equities: The MSCI AC World Index fell for the third straight week and by the most since March 2023 due to increased geopolitical tensions and growing fears around the path of Fed monetary policy. The S&P 500 was lower for the third straight week and is now more than 5% off its 52-week high on concerns of inflationary pressures reigniting. The blue-chip Dow Jones Industrial Average was the only major average marginally higher, posting a weekly gain for the first time in three weeks.

Fixed Income: The Bloomberg Barclays Aggregate Index was lower for the third straight week as Treasury yields continued to move higher amid uncertainty around the Fed's next move. The 2YR ended the week just shy of the key 5% level. Leverage loans and floating rate instruments were the only two areas of fixed income higher.

Commodities/FX: The Bloomberg Commodity Index was higher for the fourth straight week. Natural gas prices surged on reports of colder than normal temperatures expected and smaller inventory builds in the U.S. Gold prices marked their fifth straight week of gains as geopolitical tensions cause investors to continue to pile into the safe-haven asset.



Footnotes: Data is as of March 2024.
Source: Bloomberg Finance LP, Verdence Capital Advisors.

Megan Horneman | Chief Investment Officer
mhorneman@verdence.com

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VERDENCE CAPITAL ADVISORS

Key Takeaways:

- Still early in 1Q24 earnings season; 14% of S&P 500 companies have reported results.
- Financials see net interest income lower but cite increase in investment banking revenues.
- Electric utilities expected to report the largest earnings growth of all 11 sectors.
- Five “magnificent seven” components to be largest contributors to year-over-year earnings growth.
- A stronger U.S. Dollar may put downward pressure on multinational firms.

Diving into 1Q24 Earnings Season

S&P 500 earnings for 1Q24 just recently kicked off with reports from the major financial firms. In this weekly, we wanted to provide an overview of what investors could expect over the next few (busy) weeks for earnings. Overall, only 14% of companies in the S&P 500 have reported 1Q24 earnings thus far. According to FactSet, companies are expected to report earnings growth of 0.5% for the quarter, which would mark the third-straight quarter of year-over-year growth. However, FactSet also believes the estimate is too low and S&P 500 earnings will ultimately come in with growth of 7% year-over-year. This is based on historical vs. expected data. The actual earnings growth rate has exceeded the estimated earnings growth rate at the end of reported quarters in 37 of the past 40 quarters.[1]

- **Financials kick off earnings season:** Large financial institutions, (e.g., JPMorgan, Wells Fargo, and Citigroup) kicked off 1Q24 earnings season on Friday, April 12th. Banks are reporting lower net interest income (i.e., the difference between the bank’s interest-bearing assets and liabilities), as higher interest rates continue to push customers to higher-yielding products. Investment banking activity increased during the quarter as both Citigroup and Goldman Sachs reported growth of 30%+ during the quarter, driven by higher debt and equity issuance.
- **Utilities sector expected to drive growth:** The Utilities sector is expected to lead year-over-year earnings growth for the S&P 500. Electric utilities are expected to be the strongest performing. Increased demand from data centers powering generative AI technology is the leading cause of this, with nine of the 10 top companies stating data centers for AI technology were a main source of customer growth.[2] If these companies were to be excluded from the Utilities sector, the earnings growth rate would fall to 1.3% YoY (vs. 22% YoY).
- **Technology companies still getting AI related boost:** The “Magnificent Seven” companies are expected to lead year-over-year earnings growth for the S&P 500 Index. In fact, five of the “magnificent seven” companies (NVIDIA, Amazon, Meta, Alphabet, and Microsoft) are expected to be the top-five contributors to the year-over-year earnings growth for the S&P 500. If these companies were excluded, S&P 500 earnings would report a year-over-year earnings decline of -6.0% (vs. +0.5% estimate).[1] Meta, Microsoft, and Alphabet are all scheduled to report 1Q24 earnings results this week.
- **Strong U.S. Dollar may affect multinational firms:** The U.S. Dollar Index climbed ~2% during the first quarter (compared to 1Q23) which is expected to negatively impact multinational companies’ earnings. A stronger U.S. Dollar not only makes U.S. companies less competitive internationally but is a drag on earnings when converted back into the U.S. Dollars.

The Bottom Line:

Earnings typically come in 3-5% better than the estimate at the start of the reporting season and we expect this to continue. The challenge to S&P 500 returns in this earnings season will be that companies have to produce earnings and outlooks that support the elevated multiples. This may be challenging with a Fed that is unlikly to cut interest rates in the time frame that most had expected, inflation remains stubborn and the economic outlook is highly uncertain.

Global Equities Fall on Rate Fears and Geopolitical Tensions

U.S. Equities	Current	1WK	1MO	3MO	1YR	YTD
Dow Jones Industrial Average	37,986	0.0%	-2.8%	0.8%	14.5%	1.4%
S&P 500	4,967	-3.0%	-4.0%	3.0%	21.4%	4.6%
Russell 1000 Growth	3,184	-4.9%	-5.5%	1.4%	30.1%	4.6%
Russell 1000 Value	1,680	-0.7%	-2.1%	4.7%	12.5%	3.8%
Russell Midcap	3,147	-2.4%	-3.7%	3.2%	14.1%	1.5%
Russell 2000	1,948	-2.8%	-4.2%	0.5%	9.9%	-3.5%
Nasdaq	15,282	-5.5%	-5.4%	0.0%	26.8%	2.0%

International Equities	Current	1WK	1MO	3MO	1YR	YTD
MSCI AC World (USD)	743	-2.9%	-3.7%	3.0%	15.3%	2.7%
MSCI EAFE (USD)	2,236	-2.3%	-3.7%	3.4%	7.1%	0.8%
MSCI Europe ex UK (USD)	2,541	-0.6%	-3.3%	4.9%	7.2%	1.6%
MSCI Japan (USD)	3,768	-3.6%	-4.7%	3.9%	17.1%	4.7%
MSCI UK (USD)	1,172	-1.3%	0.1%	5.2%	3.9%	1.0%
MSCI EM (USD)	1,004	-3.6%	-2.1%	4.0%	4.1%	-1.4%
MSCI Asia ex Japan (USD)	629	-3.7%	-2.6%	4.5%	0.5%	-1.6%

Fixed Income	Current Yield	1WK	1MO	3MO	1YR	YTD
U.S. Aggregate	5.3%	-0.6%	-1.6%	-1.7%	-0.2%	-3.1%
U.S. Govt/Credit	5.2%	-0.5%	-1.5%	-1.6%	-0.1%	-2.9%
U.S. 10 Year Treasury	4.6%	-0.7%	-2.1%	-2.8%	-4.4%	-4.7%
U.S. TIPS (1-10YR)	5.0%	-0.2%	-0.2%	-0.4%	1.2%	-0.7%
U.S. High Yield	8.3%	-0.6%	-1.2%	0.5%	8.7%	-0.2%
EM Bonds (USD)	7.4%	-0.5%	-0.6%	1.2%	6.8%	-0.2%
Municipal Bonds	3.7%	-0.3%	-1.3%	-0.4%	2.5%	-1.4%

Commodities	Current	1WK	1MO	3MO	1YR	YTD
Bloomberg Commodity Index	240	0.2%	3.9%	7.9%	1.3%	6.2%
Crude Oil (USD/bbl)	$83.1	-2.9%	-0.3%	9.7%	4.0%	11.5%
Gold ($/oz)	$2,391.9	2.0%	8.3%	16.0%	18.3%	13.7%
Copper	$449.8	2.6%	12.4%	19.4%	12.9%	15.5%
Wheat	$566.8	1.1%	0.7%	-6.3%	-17.8%	-11.1%
U.S. Dollar	106	0.1%	1.8%	2.9%	4.4%	4.9%
VIX Index	18.7	8.1%	35.4%	40.7%	13.7%	50.3%

Footnotes: Data is as of April 19, 2024.

Source: Bloomberg Finance LP, Verdence Capital Advisors.

[1]: https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_041224.pdf

[2]: https://www.reuters.com/business/energy/us-electric-utilities-brace-surge-power-demand-data-centers-2024-04-10/

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Megan Horneman | Chief Investment Officer
mhorneman@verdence.com