Weekly Investment Insights

May 6, 2024

Key Takeaways:

- Job openings fall to lowest level since February 2021.
- Rate cuts still on table, but Fed needs “more confidence”
- Jobs growth slows; unemployment rate rises.
- Global equities climb as investors pile back into growth.
- Yields plummet as investors see possibility for rate cuts.
- Commodities lower led by crude oil and gold prices.

Weekly Economic Recap –

Fed Keeps Rate Cuts on Table but Needs More Confidence

Consumer confidence as tracked by the Conference Board fell to the lowest level since July 2022. Consumers' view on the labor market worsened as anticipation for fewer jobs to be available in the next six months increased. Nearly half of the respondents reported their willingness to cut back on spending in the next six months.

Job openings as tracked by the JOLTS report fell in March to the lowest level since February 2021. The quits rate (i.e., those who leave their jobs voluntarily) fell to the lowest level since August 2020 (2.1%) while the hiring rate fell to 3.5%, the lowest since the beginning of the Covid pandemic.

Manufacturing activity in the U.S. fell back into contraction territory in April (a reading on the ISM Manufacturing Index below 50) after expanding in March for the first time since 2022. The prices paid component increased for the second straight month to its highest level since June 2022 (60.9).

The Federal Reserve kept interest rates unchanged (5.25% - 5.50%) at their May meeting and continued to insinuate that rate cuts are still on the table and did not say rate hikes were on the horizon. Fed Chairman Powell acknowledged the recent uptick in inflation data by stating, "it is likely that gaining greater confidence will take longer than previously expected."

The U.S. economy added 175K jobs in April versus the expectation of 240K jobs. In addition, the unemployment rate rose unexpectedly. Education and healthcare led the gains in jobs for the month. Lastly, average hourly earnings grew less than expected on a year over year basis.

Weekly Market Recap –

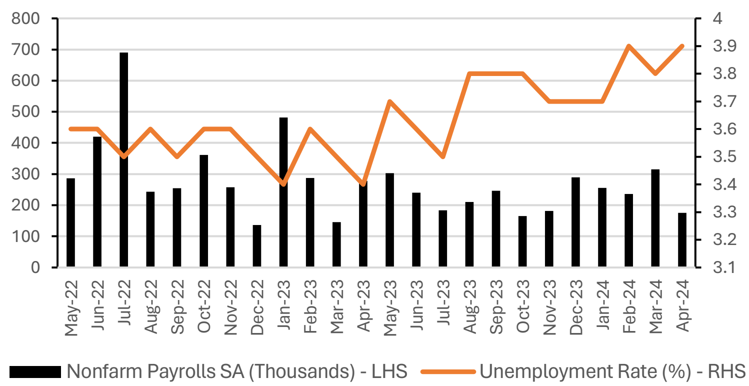
Global Equities Rally on Soft U.S. Employment Data

Equities: The MSCI AC World Index was higher for the second straight week as data on the U.S. labor market suggested the Fed may still be able start cutting rates later this year. All major averages were higher in the U.S. with small-caps, as tracked by the Russell 2000 posting the best weekly return. Growth sectors outperformed value sectors as Treasury yields dipped lower on the softer-than-expected U.S. jobs data.

Fixed Income: The Bloomberg Barclays Aggregate Index was higher for the first time in five weeks as Treasury yields fell sharply after the U.S. jobs data. The 2YR yield fell back below the key 5% level, while the 10YR fell below 4.50%. All areas of fixed income markets were higher for the week. Investment grade corporate bonds posted their best weekly return since January as yields fell and risk sentiment accelerated.

Commodities/FX: The Bloomberg Commodity Index was lower for the second straight week. Crude oil prices posted their worst weekly performance since February as tensions between Israel and Hamas eased as both sides agree (for now) to a ceasefire and hold talks with international mediators. Gold prices fell to a one-month low to end the week as traders took profits amid easing geopolitical tensions.

Unemployment Rate Rises as Job Growth Slows



Data is as of April 2024.
Source: FactSet Research Systems, Verdence Capital Advisors

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Key Takeaways:

- Global stocks and bonds declined in April.
- GDP surprisingly slows in 1Q.
- Inflation remains burdensome to the Fed.
- Global equities decline led by the U.S.
- Bond yields rise as Fed rate cuts put into question.

April Showers to Bring May Flowers?

After a remarkable start to the year, investors were showered with losses in April. Both stocks and bonds declined for the month as the MSCI AC World Index fell for the first time in six months and the Bloomberg Agggregate Bond Index fell for the third time in four months. Economic data that showed progress on the Fed's inflation battle may have hampered risk sentiment as the chances for rate cuts were pushed further out to 4Q24. In this weekly insights, we reflect on the month of April and review economic data and asset class performance.

- **GDP slows more than expected:** The advanced reading on 1Q24 GDP showed that the U.S. economy grew less than expected (1.6% QoQ vs. 2.5% estimate). The weakness was led by net exports and inventories. In addition, personal consumption grew less than expected.
- **Manufacturing and services in contraction:** According to the ISM surveys, manufacturing and services both fell back into contraction territory (a reading below 50). Within both indices prices paid jumped more than expected while new orders and employment were weak.
- **Inflation surprises:** Inflation in multiple economic reports was higher than expected. Within reports on GDP, manufacturing, services, consumer prices and the Fed's preferred indicator (PCE Core), inflation is proving to be sticky.
- **Consumer spending continues:** Despite the economy clearly weakening, consumers continue to spend. Retail sales grew more than expected as consumers spent on gasoline, building materials, internet sales and general merchandise.

Global Equities Falter on Inflation Progress: As inflation has proved to be problematic, interest rate cuts in the U.S. were pushed further into 2024. As a result, equities faltered. The MSCI AC World Index had its worst month in seven months led by weakness in the U.S.

- **Small and midcap lead U.S. losses:** All the major U.S. indices were lower for the month. However, the Russell 2000 and Russell 2500 underperformed the large cap, Russell 1000 Index. The Russell 2000 Index posted its worst one month decline since September 2022.
- **Growth and value mixed:** Growth at the large cap level moderately outperformed value stocks. However, at the small and midcap level, growth underperformed value.
- **International outperforms U.S.:** The MSCI EAFE Index outperformed the S&P 500 led by gains in Europe.

Fixed Income Declines on Inflation Uncertainty: The Bloomberg Aggregate Index posted its worst one month drop in seven months. Higher than expected inflation data pushed yields higher.

- **Short term leads:** As yields rose, short term and floating rate notes outperformed the broad bond index.
- **High yield outperforms:** High yield debt also declined but fell less than investment grade credit.

Commodities higher led by precious metals: The Bloomberg Commodity Index was higher for the second straight month as gold prices continued to reach new record highs on the likelihood of fewer Fed rate cuts.

- **Crude oil prices lower:** Crude oil prices were lower for the first time in four months as tensions in the Middle East eased, for now.

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