Markets Rebound as Economy Cools

Market Update MAY 2024

In May, we witnessed a substantial rebound across the broad markets, marking a notable turnaround from April's selloff. Equity markets in particular spearheaded the recovery, while alternatives (represented by the S&P GSCI Index), which previously led the way in 2024, posted their first negative monthly returns of the year.

In May, inflation metrics demonstrated relative stability compared to the previous month, with both Headline PCE and Core PCE posting slight downticks in year-over-year price growth, dropping from 2.70% to 2.65% and from 2.81% to 2.75%, respectively. However, a closer look at the month-over-month changes in Core PCE reveals a more notable trend, as April's reading dropped from 0.30% to 0.20%. This projected annualized rate of 2.43% demonstrates a trend of greater progress towards the 2.0% target if the Fed is able to continue this trajectory.

The US job market has remained resilient, with the unemployment rate rising very slightly to just 4.0%. Additionally, the U.S. economy added approximately 272,000 jobs, significantly outperforming expectations for the month. This is encouraging news, though there are still certain elements of the labor markets that pose some uncertainties around how strong the jobs market truly is. Initial claims for unemployment insurance have been steadily rising, with an increase of 8,000 last month, bringing the total to 229,000. Further, available jobs dropped from 8.36 million to 8.06 million, while unemployed persons increased slightly from 5.2 million to 5.68 million. This tightening of the labor market seems to be primarily driven by declining available jobs and is indicative of deceleration in job growth that could signify a broader economic slowdown.

The labor market's signs of cooling were reinforced by the second estimate for Q1 2024 Real GDP, released on May 30th, which revised the initial 'advance' estimate for Real GDP annualized growth down from 1.6% to 1.3%. This downward revision is mainly due to lower consumer spending and private inventory investment, partially offset by an upward revision in state and local government spending.[1] This release shows a potential weakening trajectory in the consumer, and while GPD growth is still anticipated to be in positive growth territory, it remains well below the 10-year average real GDP growth rate of 2.6%.

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While the economy is beginning to exhibit signs of 'cooling', the markets have welcomed this data as a favorable news, spurring the sizeable recovery we saw in May. The moderate cooling of economic activity indicates a 'soft landing' (i.e., achieving the 2.0% inflation target without triggering a recession) may in fact be potentially achievable.

As the month of May concluded, both equity and fixed income markets displayed noteworthy resilience, staging a commendable recovery following the selloff witnessed in April. Although the S&P 500 Index experienced its first weekly decline since mid-April, it still ended the month with a robust gain of 4.80%, closing at 5,277. This brings the large cap equity index's year-to-date return to 11.3%.

In the first quarter of 2024, the S&P 500 saw a blended (year-over-year) earnings growth rate of 5.9%. If this figure holds as the actual growth rate for the quarter, it will be the largest year-over-year earnings growth rate reported by the index since the first quarter of 2022. Additionally, the forward 12-month Price-to-Earnings (P/E) ratio for the S&P 500 is recorded at 20.3. This P/E ratio surpasses both the 5-year average of 19.2 and the 10-year average of 17.8. Such a valuation suggests that stocks are currently trading at a higher price relative to their earnings compared to historical averages.[2]

Small caps, on the other hand, continue to offer a potential opportunity for value. While small caps have struggled over the past several years and especially during the recent high interest-rate environment, they are exhibiting very low valuations (such as the forward price-to-earnings ratio) compared to historical averages. Year-to-date returns of 1.59% for the S&P SmallCap 600 Index remains well behind the mid and large cap indices, however they posted the largest monthly gains in May, returning 5.05% for the month amidst growing hope for a soft landing, showcasing the opportunities for growth if elevated interest rates begin to decrease.

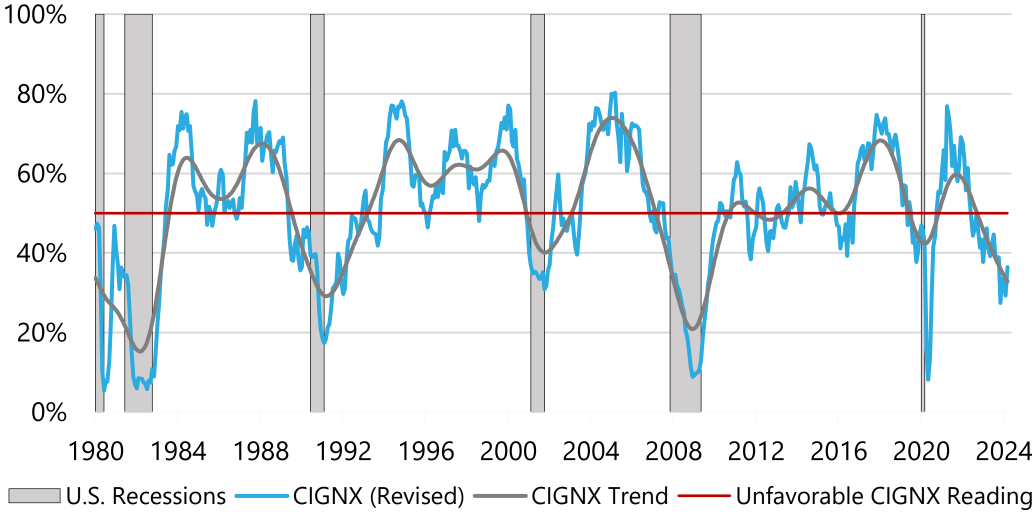
1. https://www.bea.gov/sites/default/files/2024-05/tech1q24-2nd.pdf
2. https://advantage.factset.com/hubfs/Website/Resources%20Section/Research%20Desk/Earnings%20Insight/EarningsInsight_053124.pdf

Smarter Way to Invest

MARKET SENTIMENT= MIXED

Signal Update MAY 2024

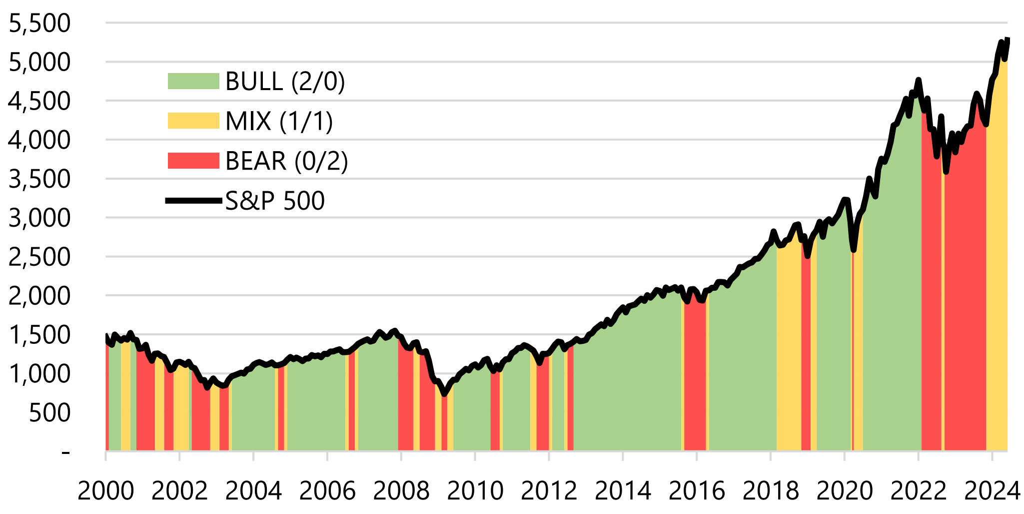
CIGNX = 34.1



Our **CIGNX** Economic Indicator has a reading of **34.1**, down from last month's revised reading of **37.6**. This reading is down from last month, this is indicative of continued sluggish economic activity and a continued unfavorable trend in economic activity. This remains well below our baseline threshold of **50.0,** indicative of unfavorable conditions, and below the baseline reading of **40.0**, which we typically interpret as the economy experiencing recessionary conditions. **Our overall economic outlook remains negative.**

MONTH (2023)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
CIGNX (Revised)	32.4	29.3	36.5	37.6	34.1							
CIGNX Trendline	34.4	33.6	32.8	32.1	31.3							

ALPHA = Positive (Buy) OMEGA = Negative (Sell)



Our short-term **(Alpha)** signal remained **Positive** during the month of May, while our intermediate-term signal **(Omega)** remains **Negative**, indicating the near-term market trajectory is favorable while the long-term outlook for the market trajectory is unfavorable. We remain in a "Mixed" positioning across each of our Dynamically managed Portfolios, with a slightly reduced exposure to equities. **Our overall market sentiment outlook is Mixed.**

MONTH (2023)	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
ALPHA	BUY	BUY	BUY	BUY	**BUY**							
OMEGA	SELL	SELL	SELL	SELL	**SELL**							

Asset Class Indices	S&P 500 Index	S&P 400 Index	S&P 600 Index	U.S. Agg Bond Index	S&P GSCI Index	S&P 1500 Real Estate
Monthly	4.96%	4.39%	5.04%	1.70%	-1.90%	4.67%
Year to Date	11.30%	7.87%	1.59%	-1.64%	9.52%	-4.39%

Market Review MAY 2024

U.S. Lg Cap Stocks

The S&P 500 Index saw a solid rebound from last month, experiencing a return of 4.96%. Whereas the Dow Jones Industrial Index, another large-cap index, only saw a return of 2.58%, the S&P 500 Growth Index saw a return of 6.08%, indicating growth companies are driving most of the month's returns. Although slightly trailing small caps for the month, large-cap stocks continue to lead the way on a year-to-date basis among equity market caps, and now takes the lead as the best performing market segment so far in 2024, bringing the year-to-date return to 11.30%.

U.S. Md Cap Stocks

The S&P MidCap 400 Index also experienced a solid rebound, but continued its recent trend of underperformance relative to both small and large-cap stocks, with a monthly return of 4.39%. This isn't unexpected given the S&P 400's lower allocation to the currently strong technology sector. Despite this lag in May, the index remains ahead of small caps year-to-date, though still behind large caps. This highlights the varying dynamics at play across different market capitalizations, reflecting investor sentiment and prevailing market conditions.

U.S. Sm Cap Stocks

The S&P SmallCap 600 Index outperformed both large and mid cap segments with a return of 5.04% for the month, which can likely be attributed to falling yields in May, as this sector is more sensitive to interest rates. This brings their year-to-date performance into positive territory, underscoring their potential for higher growth if yields and interest rates begin to fall. Although small caps have returned just 1.59% year-to-date, they remain at relatively low valuations compared to historical averages and in comparison to large and mid caps.

U.S. Bonds

Bond markets have seen a similar rebound in the month of May, returning 1.70% for the month. This positive performance provides a welcome respite for investors, reflecting improved market sentiment and a more favorable outlook for interest rates in the near term, which pushed yields lower in May. However, despite the positive returns for the month, bond markets remain negative for the year, as expectations of lower rates not yet come to fruition, and inflation remains an ongoing issue.

Alternative Assets

Unlike all other major asset classes, alternatives experienced negative returns in May, falling by -1.90%. This decline is primarily due to crude oil, the largest holding in the index, which plummeted -5.08%. However, gains in agriculture, gold, and industrial metals partially mitigated these losses. This negative performance stands in contrast to the broader market rally, particularly strong returns by equities. Despite the May dip, alternatives still boast year-to-date returns of 9.52%, showcasing their resilience and benefits for diversification.

U.S. Real Estate

Following the equity and bond markets, the S&P 1500 Real Estate Index posted returns of 4.67% for the month of May. This positive performance marks a rebound for the sector, which has faced challenges thus far this year. Despite the gains in May, the year-to-date return for the S&P 1500 Real Estate Index remains at -4.39%, reflecting the ongoing volatility and uncertainties in the real estate market amidst elevated interest rates and economic headwinds.

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