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ICON Insights

Market Commentary - May 2024

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Equities

The S&P 1500 Index gained 28.6% off a low, October 27, 2023, through March 28, 2024. The upward path was steady with low volatility. April, however, began with a 5.5% drop through April 19. Inflation, which had been declining since its peak June 2022, leveled off and even inched higher in early 2024. This stubborn inflation prompted investors to take the expectation for the Federal Reserve (Fed) to cut interest rates off the table. Some investors even feared the Fed might have to raise rates to get inflation down to its 2.0% goal. With potential Fed policy changing, the yield on the 10-year Treasury note increased from 4.2% to over 4.6%. This setting proved too much for stocks to overcome, thus the early April decline.

The index has rebounded off that April 19 low, but not enough to get back to its March 28 high. Contributing to that rebound has been some weak economic data leading some investors to believe inflation may return to its disinflation path. The hope for the Fed to cut interest rates also returned as the yield on the 10-year Treasury dropped to the 4.5% range.

The market drop in early April and the subsequent rebound have had very opposite sector themes. The worst three during the drop were Real Estate, Information Technology and Consumer Discretionary. Holding up the best, Energy was even positive, while the next three were the so-called, recession proof, defensive sectors of Utilities, Telecommunication Services and Consumer Staples. During the rebound in late April, Energy completely flipped and was the worst and only negative sector. Flipping the other direction, Information and Consumer Discretionary were the best two sectors during the rebound. Utilities was unusual as it was among the best during the drop, but also third best during the rebound.

Based on a variety of indicators, we expect small-cap stocks to lead the market sometime in the future. In fact, we believe this leadership change is long overdue. Perhaps it is beginning as small-cap indexes have beaten large cap indexes off the recent April 19 low. With a market V/P of 1.03 we believe stocks, on average, can grind higher.

Bonds

When the Fed began tightening monetary policy, we believed the 2.0% inflation goal with less than historic average unemployment was possible. We still do. What has surprised us is the slow pace the Fed is taking to get there, when it had the tools to get there faster. With the belief the Fed will get to its goal eventually, we expect the yield on the 10-year Treasury to be lower over the next few years. The surge higher in April appears to be an overreaction to the stubborn inflation of early 2024.

Summary

As of May 6, 1037 of the companies in the S&P 1500 Index have reported first quarter earnings. On average, they are beating estimates (forecasts) by 8.51%. As a sector, Consumer Discretionary companies are surprising analysts the most, beating estimates by 16.45%. In addition, the earnings are, on average, 3.63% greater than the same quarter a year ago. We believe these earnings have contributed to the late April market rebound, yet there have been individual stocks that got pounded when they issued disappointing earnings guidance for the future. It appears investors are in the mood to bid stock prices higher for companies that are growing earnings.

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The unmanaged Standard & Poor's Composite 1500 (S&P 1500) Index is a broad-based capitalization-weighted index comprising 1,500 stocks of Large-cap, Mid-cap, and Small-cap U.S. companies.

The 10-year yield is the benchmark 10-year yield to maturity reflected by the current issue 10 year U.S. Treasury note.

Sources: Bloomberg

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