OBSERVATIONS

- Markets were down last week, with US large caps trading just slightly lower—the S&P 500 lost -0.1%—while small caps sold off—Russell 2000 was down -2.0%—in the wake of interest rates moving higher. The yield on a 10-year Treasury rose 23 basis points last week to end Friday with a yield of 4.31%.[1]
- Headline inflation (CPI) increased slightly in February to 3.2% year-over-year (YoY) from January's 3.1% YoY figure—analysts had been expecting CPI to hold steady at 3.1% YoY—but core-CPI, which strips out volatile food and energy prices, fell modestly to 3.8% YoY from January's 3.9% YoY figure.[1]
- Similarly, the Producer Price Index (PPI) also came in higher than expectations in February, showing a 1.6% YoY increase for input prices, up from January's 1.0% YoY figure. Core-PPI—which removes food and energy producer prices—also came in higher than expected at 2.0% YoY.[1]
- The Small Business Optimism Index fell to 89.4 in February—down from January's 89.9 level—marking the 26th consecutive month where the index has been below its 50-year average of 98. Small business owners continue to struggle finding qualified labor and adjusting to higher input prices and higher interest rates.[2]
- Retail sales underwhelmed in February as headline sales rose only +0.6% month-over-month (MoM)—consensus expectations were for a +0.8% MoM gain—and January's retail sales figures were revised lower to -1.1% MoM, which is the fourth straight month of negative revisions to previous month's figures.[1]
- Initial unemployment claims came in better than expected last week registering only 209k and the previous week's figure was revised down to 210k—suggesting continued strength in the US labor market.[1]
- Industrial production gained +0.1% MoM in February, but January's figure was revised down -0.5% MoM and capacity utilization remained at 78.3%, which is unchanged from January's revised figure.[1]
- Consumer Sentiment continues to be subdued with the Michigan Consumer Sentiment Index slipping to 76.5 in March down from February's 76.9 level—the index remains about halfway between its historic low set in mid-2022 as inflation spiked and its pre-Covid, decade's high level.[1]

EXPECTATIONS

- The Bank of Japan (BoJ) meets this week, and markets are expecting additional guidance on how the BoJ expects to unwind its current, ultra-loose monetary policy. Just as in most parts of the world, Japan has experienced an increase in inflation, but unlike most, this increase has actually boosted inflation from zero to a more normal level—the latest figure shows Japanese inflation at 2.2% YoY. The BoJ is likely to announce the first steps toward undoing its negative interest rate policy and begin the gradual process to normalize its monetary policy.[3]

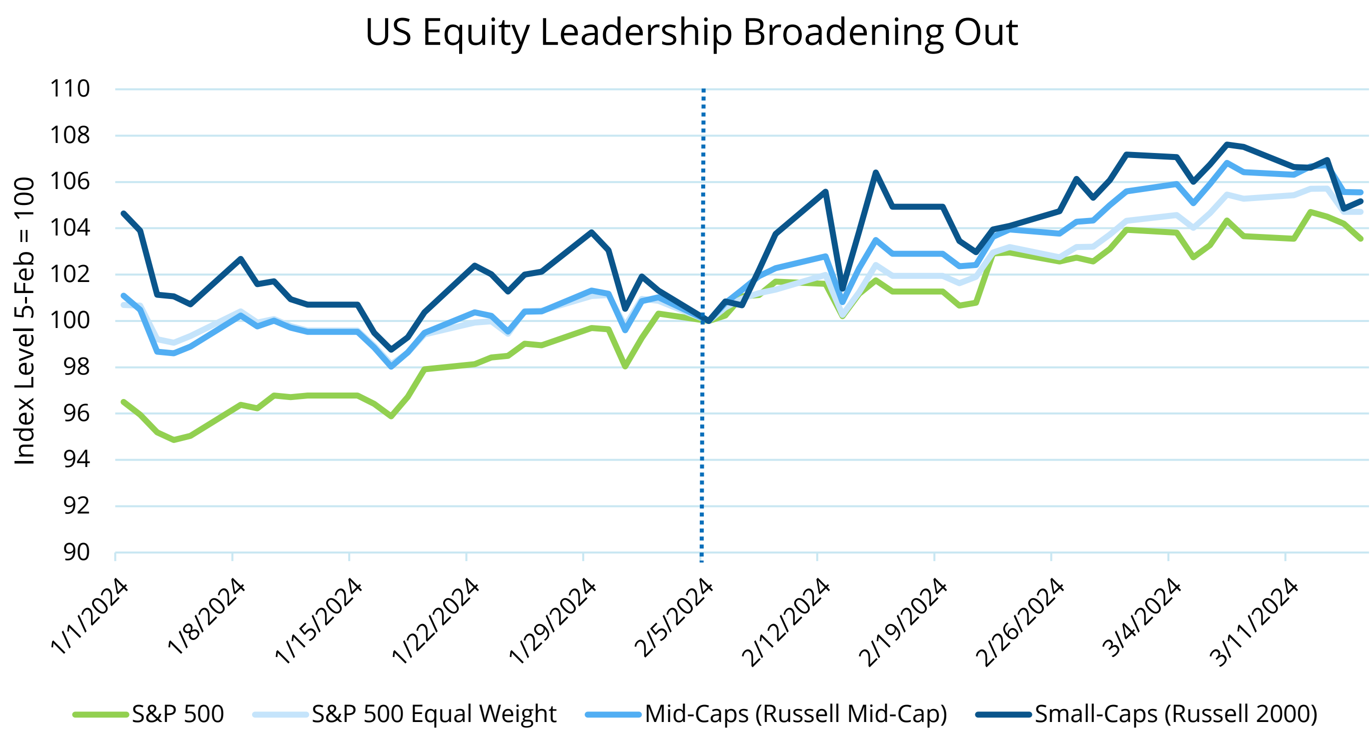
ONE MORE THOUGHT: *US Equity Leadership Broadening Out.*[1]

Since the beginning of February, US equities have quietly seen a broadening out of gains beyond just a small percentage of mega-cap, tech names. Over the past six-weeks, US small-caps (Russel 2000 Index) have gained about +5.3% and US mid-caps (Russell Mid Cap Index) have gained +5.5%, whereas the S&P 500 has gained +3.5%. Similarly, the S&P Equal Weighted Index is up by +4.5% and is also ahead of the normal market-cap weighted index by about +1.0%. This is due in part to the headwinds faced by some of the Magnificent Seven—the group of tech stocks (Microsoft, NVIDIA, Alphabet/Google, Apple, Amazon, Meta/Facebook, and Tesla) that drove most of the gains

[1] *Bloomberg LP, 3/15/2024*
[2] *https://www.nfib.com/surveys/small-business-economic-trends/*
[3] *https://www.ft.com/content/add7d18c-cf64-414c-a54a-7316a1830f9a*

of the S&P 500 last year. This year, both Apple, which is down -11% year-to-date (YTD) and Tesla, which is down over -30% YTD, have been a drag on overall returns of the standard cap-weighted S&P 500. Conversely, despite the challenges facing a few stocks, over 80% of the S&P 500 have traded above the 200-day moving average, which is an obvious sign of a broad-based stock rally. This broadening out of US equity returns is normal whereas the concentration of last year's returns that were dependent upon so few mega-cap names was anomalous. There have also been other signs of market breadth behind the momentum of the recent stock market gains. One such measure is the fact that the equal weighted S&P 500 just hit a record high, surpassing its level from early Jan-2022. Similarly, the percentage of stocks outperforming the S&P 500 on a three-month rolling period has climbed from less than 20% (a 30-year low) in the Spring of 2023 to nearly 50% at the end of Feb-2024—which is close to its long run average of 52%. All these measures point to the conclusion that the stock market rally of late is less dependent on a few high-flying stocks and more reflective of improving fundamentals across a broader swath of US equities.

CHART OF THE WEEK



Source: Clearstead, Bloomberg LP 3/15/2024

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