OBSERVATIONS

- Markets traded slightly higher last week with the S&P 500 gaining +0.6% and small caps (Russell 2000 Index) gaining +1.7%, while the yield on a 10-year Treasury fell -16 basis points to 4.51%.[1]
- Durable goods increased +2.6% month-over-month (MoM) in March—which was on par with expectations—but February's figure was revised down by half to +0.7% MoM.[1]
- The ISM Manufacturing PMI came in below expectations in April declining to 49.2—any reading below 50 indicates contracting economic activity. Meanwhile the prices-paid sub-component—an indicator of inflationary pressures in the manufacturing sector—increased to 60.9, which was well above expectations.[1]
- In the same vein, the April ISM Services PMI also came in below expectations and declined to 49.4, while the prices-paid sub-component surged to 59.2 suggesting inflationary pressures in the services sector remain.[1]
- The Employment Cost Index indicated that wages grew by +1.2% for Q1 on average, which indicates that wages are on track to grow by over +4.0% for the full year. But, in contrast, the monthly average hourly wage report showed that wages slowed in April falling to +3.9% YoY down from March's +4.1% YoY rate .[1]
- The Job Openings and Labor Turnover Survey (JOLTS) report showed the job postings in March fell to just 8.488 million—a decrease of -325k from February's figure of 8.813 million job openings.[1]
- Unemployment claims remained unchanged and historically low. Initial claims were 208k last week the same as the previous week's level—through the first 17-weeks of the year-to-date, 2024 has had the fewest total initial unemployment claims since 1969 when the total workforce was less than half the size it is now.[1]
- The US economy created 175k new jobs in April—which was below expectations for 240k—and the unemployment rate ticked up to 3.9% from March's 3.8%, while labor force participation was unchanged.[1]

EXPECTATIONS

- The Fed held rates steady last week and Chairman Powell used his press conference to make two key points. The first was that the Fed did not broadly think any further rate hikes would be needed to reduce inflation. Second, that the past three months had not increased the Fed's confidence that inflation was heading sustainably down to their 2% target and that it would take longer for the Fed to gain that confidence than initially anticipated, but it would eventually arrive and result in interest rate easing.[2]
- The Fed also announced that it would adjust the pace of its balance sheet reductions—so called quantitative tightening (QT). The Fed would begin in June to slow the pace of QT from $60 billion per month to $25 billion for US Treasury securities, while leaving the pace of reduction for other securities (primarily mortgage backed instruments) at $15 billion per month.[2]
- With over 80% of the S&P 500 having reported, the number of companies reporting positive earnings surprises is 77%--which is on-par with the 5-year average and ahead of the 10-year average (74%)—and Q1 earnings are set to grow by 5.0% YoY—up from last week's blended estimate of 3.5% YoY figure.[3]

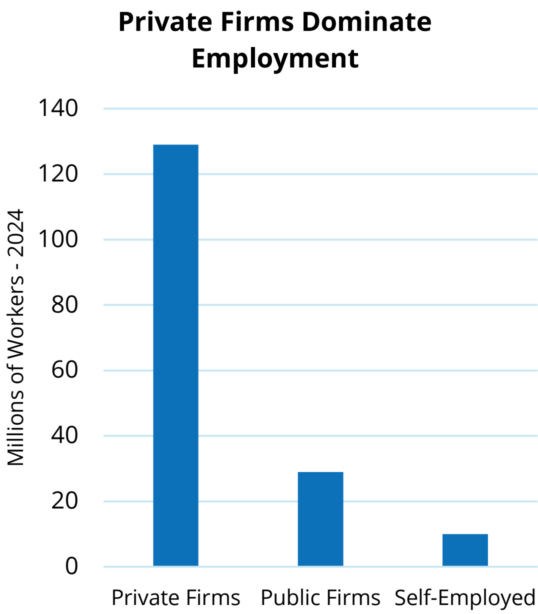
ONE MORE THOUGHT: *Despite the attention on public markets, private companies dominate the US economy*

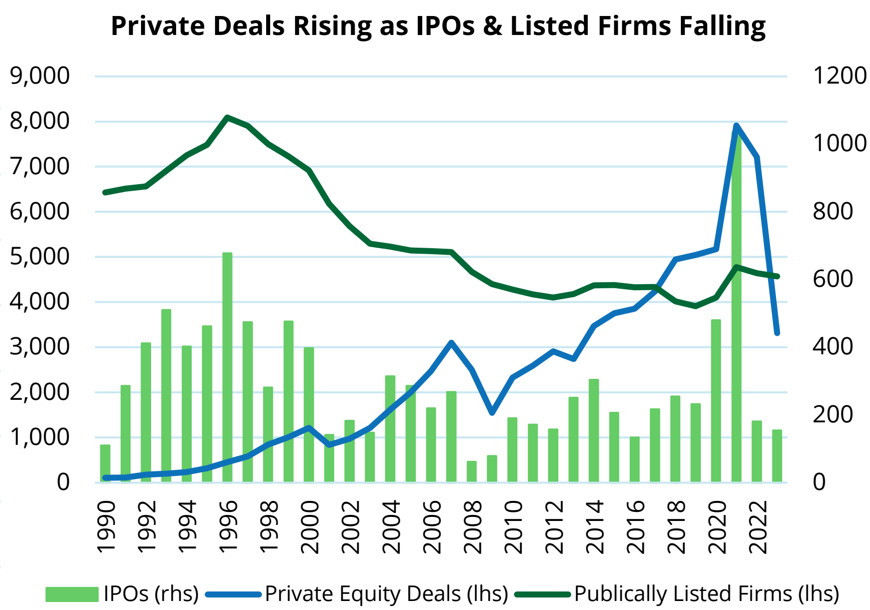
Including the most recent jobs report, US companies employ about 158 million Americans, and another 10 million Americans are self-employed. However, "Corporate America"—large public companies that comprise the S&P 500 as well as the broader Russell 3000 indices—account for only 29 million jobs, whereas private companies provide

[1] *Bloomberg LP 5/3/2024*
[2] *https://www.federalreserve.gov/monetarypolicy/fomcpresconf20240131.htm*
[3] *FactSet Earnings Insight 5/3/2024*

more than 75% of employment in the US economy (see Chart of the Week). While small businesses comprise much of these firms—many are Mom & Pop type operations with only a dozen or so full-time employees—private firms can be as large as the largest public firms. In fact, about 87% of firms in the US with more than $100 million in revenues annually are private companies. Companies like Cargill or Koch Industries have revenues well over $100 billion, which is in the same neighborhood as the total sales of mega-cap firms like Meta (Facebook) or Microsoft. In contrast, the Wiltshire 5000 Index—a listing of all the public companies in the US—has only 3,400 stocks in the index as the number of publicly listed companies in the US continues to decline. In 2023, there were 154 initial public offerings (IPOs)—newly listed firms on US stock exchanges. However, that same year saw 47 public firms taken private—bought up by private investors, most likely by a private equity firm—and delisted from public stock exchanges. According to the US Chamber of Commerce a record 5.5 million new business applications were filed in 2023. While the US Federal Trade Commission worries at times that market concentration among the largest firms has been increasing and competition may be waning, it is worth remembering that the private sector businesses are thriving and there is ample evidence that competition, entrepreneurship, and the creative destruction of the business cycle remain healthy and are indeed flourishing.

CHART OF THE WEEK





Source: Clearstead, BLS, Apollo, Dealogic, Bain Capital 5/3/2024

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