OBSERVATIONS

- Markets traded higher last week with the S&P 500 gaining 1.9%, mid-caps (Russell Mid-Cap Index) gaining 2.0% and small caps (Russell 2000 Index) gaining 1.2%, while the yield on a 10-year Treasury was largely unchanged at 4.50% from the previous week's close at 4.51%.[1]
- The most recent Fed survey of Senior Loan Officers shows that banks are continuing to tighten lending standards particularly for consumer credit cards and auto loans amid weakening consumer demand for these loans. Banks also reported weaker demand for commercial and industrial loans from businesses of all sizes and continued to tighten loan standards for commercial real estate loans.[2]
- Initial unemployment claims moved higher last week to 231k—about 20k higher than expectations—but the four-week moving average, which smooths out weekly variations, is about 215k suggesting little problems in the labor market.[1]
- Mortgage rates eased last week moving below 7.2% for a 30-year fixed rate loan—down from the mid-April peak of 7.3%—and applications for new mortgages increased last week +2.6% from the week prior but remain -17% below the number of applications in the same week last year.[1]
- US freight rail shipments in April were down -6.5% year-over-year (YoY) primarily due to the decline of coal shipments—coal is primarily transported via rail. Coal carloads are down -28% YoY as demand for coal-based power generation continues to decline in the US. Meanwhile, rail-bound intermodal container shipments—a proxy for US import and export activity—were up +8.6% YoY in April.[3]
- Consumer sentiment fell in May to 67.4—expectations were for it to remain just below April's 77.2 level—the lowest reading in six months. Consumers also became more pessimistic about both their current conditions and about the future. Expectations for inflation 1-year from now increased to 3.5% from April's 3.2.% level.[1]

EXPECTATIONS

- Fed official Thomas Barkin and John Williams underscored last week that the Fed was unwilling to budge on its long-term target of returning inflation to the 2% rate and both opined that the current rate level (5.25% - 5.50%) was sufficiently restrictive to cool the economy and eventually allow prices to continue their decline towards the Fed's 2% target.[1]
- Chinese PMIs eased in April but generally showed stable economic activity. The Chinese S&P-Markit services PMI fell to 52.5 in April down from March's 52.7, but remained in positive territory. Meanwhile, the manufacturing PMI rose to 51.4 in April, which was a slight increase from March's 51.1 figure.[1]
- The Swedish National Bank surprised markets last week by cutting its main policy rate by -25 basis-points to 3.75% and noted that two additional cuts were likely in H2-2024. Meanwhile, the Bank of England held rates steady last week but signaled it would likely cut rates this summer so long as inflation continued to track towards their 2% inflation target.[1]

ONE MORE THOUGHT: Q1 Earnings Season is Almost Done and the Magnificent 7 Earnings Dominated[4]

With about 92% of the S&P 500 having reported, Q1 earnings season looks to have been better than expected overall, but the top-line numbers hide a lot of dispersion. Overall, according to FactSet, Q1 EPS growth for the S&P

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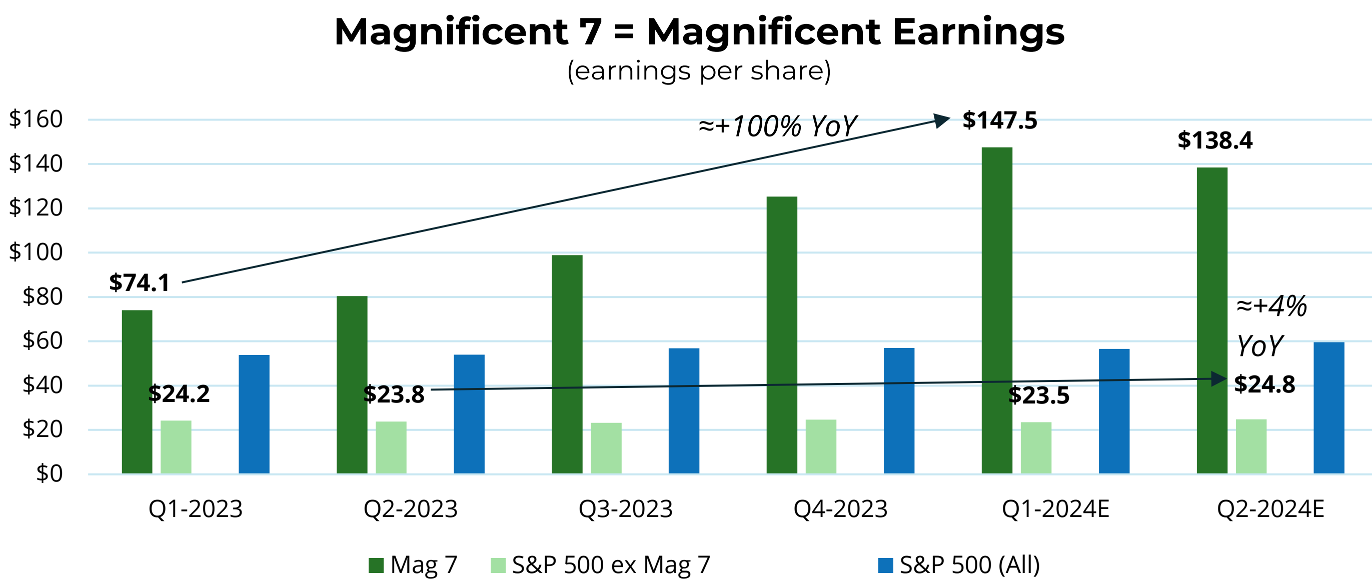
[1] *Bloomberg LP as 4/10/2024*
[2] *Federal Reserve: https://www.federalreserve.gov/data/sloos/sloos-202404.htm*
[3] *https://www.aar.org/data-center/rail-traffic-data/*
[4] *FactSet Earnings Insight 5/10/2024*

500 was about +5.4% YoY. Overall, the number of companies reporting a positive earnings surprise was 78%, which is above the 5-year (77%) and 10-year (74%) averages. What's more is that the earnings beats were largely a function of margin expansion—just what stock analysts were hoping for—as the number of firms beating on sales was only 59%, which was below the 5-year (69%) and 10-year (64%) averages. However, the "Magnificent Seven"—Amazon, Tesla, Alphabet (Google), Meta (Facebook), Apple, Microsoft, and NVIDIA—have driven much of these rosy numbers—at this point six of the seven have reported and only NVIDIA's Q1 numbers need to be reported. In fact these seven firms have nearly doubled their earnings in Q1-2024 over the year prior—assuming the estimate for NVIDIA Q1 earnings are close to the actuals which will be reported on 22-May. Meanwhile, the rest of the S&P 500 have actually seen earnings growth fall about -2.9% YoY (see Chart of the Week). Despite the fact that the Magnificent Seven have carried the index, there are other bright spots such as positive earnings growth in the Real Estate (+9.9%), Financials (+7.7%) and Utilities (+33.4%) sectors—none of these sectors contain any of the Magnificent Seven. Equally, going forward in the final quarters of the year, analysts expect slower earnings growth out of the Magnificent Seven and more widespread gains among the remainder of the S&P 500. Similarly, the earnings for small cap stocks (Russell 2000 Index) are expected to turn positive in H2-2024 and surpass the growth rate of large caps stock in 2025.

CHART OF THE WEEK



Source: Clearstead, Bloomberg, FactSet, Strategas 5/10/2024

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