Market Update

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This week in the markets....

Markets this week look to continue the rally that began last week. The US 10 Year Treasury yield has fallen back to 4.5% from 4.7% early last week and the continued momentum that returned to the market after the Amazon (AMZN) and Apple (AAPL) earnings calls last week will likely continue to push the major indices higher for some time. The Apple (AAPL) call included an unexpected and historic announcement of $110 billion in stock buy-backs and an increase in dividend to 4%. These announcements certainly overshadowed an earnings report that was largely lackluster though better than feared. Apple faces monopoly investigations in Europe and the US as well as growing competition in the smart phone market, slowing sales in Asia and tightening supply lines for necessary hardware components (Nellis, Cherney, & Yuvraj, 2024). Amazon (AMZN), however, solidified its positions as a resurgent growth engine as earnings for Q1 2024 outpaced expectations. In the first quarter, AMZN saw operating income soar by more than 200%, Amazon Web Services (AWS) accounted for 62% of total operating profit. AMZN also announced its first every dividend of $.20 per share. The continued strength of the mega-cap technology companies that have served as the backbone of the market rally that began in October of 2022 will likely continue as strong earnings and cash injections maintain investor enthusiasm. Watch the US10Y yield, if yields begin to climb again nerves may fray, and watch the yield curve overall, as changes in Fed Policy will likely lead to short-term yields falling, offering a potential righting of the currently inverted yield curve.

Market Performance

	05/03/2023	1/1/2024	5/3/2024	12 MO ROR	YTD ROR
DOW	33684.93	37566.22	38225.66	13.48%	1.42%
S&P 500	4119.58	4745.2	5064.2	22.93%	6.17%
NASDAQ	12080.35	14873.7	15840.96	31.13%	5.53%

Recession Risk

The topic of increasing recession risk is front and center in our current economic discussion, significantly influenced by recent economic indicators and policy decisions. This subject is especially relevant to us as we navigate through these uncertain times with a focus on fostering a resilient and growth-oriented portfolio.

In early 2024, the U.S. economy showed signs of struggle, growing by only 1.6%, a figure considerably lower than expected. This sluggish growth can be attributed to a decrease in consumer spending, exports, and government spending. Such a downturn in consumer spending is particularly concerning as it indicates a potential decrease in confidence among consumers, possibly leading to reduced expenditures on non-essential goods and services. This trend could have dire implications for companies within the consumer discretionary sector, as their financial health is closely tied to the willingness of consumers to spend on non-essential items. Recent reports have indicated a rise in inflation, with the Personal Consumption Expenditures (PCE) index marking a 2.7% increase over the last year as of March, up from February's 2.5% annual increase. This uptick was primarily driven by rising food and energy prices. Given that the PCE index is a primary gauge for the Federal Reserve when setting interest rates, this increase puts additional pressure on interest rates across various loans. The persistence of high inflation rates, despite expectations of a decline, suggests that the Federal Reserve may maintain its high-interest-rate policy to combat inflation, further straining the economy.

US Treasury Bond Yields

US1MO	5.37%
US3MO	5.38%
US6MO	5.35%
US1Y	5.11%
US3Y	4.60%
US5Y	4.46%
US10Y	4.49%
US30Y	4.66%

Consumer Spending

Consumer spending, a crucial engine driving the economy, has shown resilience in the face of inflation and high borrowing costs. In March 2024, U.S. retail sales outperformed expectations with a 0.7% rise. This significant uptick is not just a number; it demonstrates the steadfastness of consumers amid financial pressures, pointing towards a robust economic undercurrent that could shape market dynamics in the coming months.

Diving deeper into the details, what stands out is the broader impact of this spending surge on different retail segments. For instance, sales in general merchandise stores rose by 1.1%, and notably, online sales jumped by 2.7%. These developments are pivotal because they highlight where consumers are channeling their spending, emphasizing the strength of e-commerce and the enduring appeal of physical retail outlets.

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