



May 3, 2024

Dear Friends and Clients,

After a strong first quarter for stocks, some April showers rained down as the S&P 500 fell about 4% last month. Hopefully those showers will bring some flowers in May, despite the widely cited stock market adage, “Sell in May and go away.” There is some merit to this old adage because the S&P 500’s best six-month returns have, on average, come from November through April, and its worst between May and October (recall bear markets often end in October). Still, historically the index has gained an average of 1.8% from May through October — hardly worth avoiding.

While stocks have delivered solid gains this year, the steady growth of the U.S. economy alongside rising corporate profits increase the chances of more gains ahead. Last week’s data on gross domestic product looked soft on the surface, as the U.S. economy grew just 1.6% in the first quarter. But inventories and trade masked strong underlying consumer and business demand. Consumer spending rose at a solid 2.5% pace, while capital investment rose 2.9%. Economists looking for a slowdown keep asking: are we there yet? The economy may slow later this year, but we’re not there yet.

So, what caused stocks to dip? Beyond some digestion of strong gains through March, stubborn inflation and higher interest rates were the main culprits. As the downtrend in inflation has stalled recently, expectations for the start of the Federal Reserve’s rate-cutting campaign have been pushed out. With the Fed’s preferred inflation measure stuck near 3%, markets now expect one, or possibly two rate cuts this year, down from near six at the start of the year. Expect inflation to ease later this year as demand likely slows, but patience will be required.

If you’re concerned about a bigger slide, the numbers during corporate earnings season — now more than half complete — may be reassuring. A solid 80% of S&P 500 companies have beaten earnings estimates so far this quarter, with more than 8% average upside relative to estimates. Results from the big technology companies have mostly exceeded high expectations. And perhaps the most important earnings measuring stick, estimates have moved higher and provide evidence of upbeat guidance from corporate managements.

With the economy growing steadily and corporate profits rising, the near-term outlook for stocks still looks supportive. As always, there will be rainy days. Sticky inflation remains a thorn in the market’s side and geopolitics are a potential stumbling block. But for markets, expect more flowers than showers in May and potentially beyond.

As always, please reach out to me with questions.

Best regards,

Victor



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All index data from FactSet.

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