

May 2024

# Market Review



GRADUAL LABOR MARKET COOLING  
OPEN POSITIONS PER UNEMPLOYED PERSONS



Source: Bloomberg.

The number of open positions in the Labor Department’s Job Openings and Labor Turnover Survey (JOLTS) fell to a three-year low of 8.49 million in March. The Bureau of Labor Statistics produces the monthly JOLTS data based on a survey of roughly 21,000 U.S. employers.

The ratio of open positions to total unemployed persons in the domestic labor force in March was 1.31, the lowest level since July 2021. At its peak in March 2022, the ratio was 2.03, with open positions outnumbering total unemployed workers by more than 6 million. The ratio moving closer to 1.0 (like was in place for most of 2015 through 2019) indicates the jobs market is gradually cooling after a period of historic overheating in 2021 and 2022.

A reduction in job openings is the Federal Reserve’s preferred method of labor market cooling as opposed to outright job cuts. A continued gradual decline in the ratio of open position to unemployed U.S. workers likely improves the odds of a so-called “soft landing,” in which Fed rate hikes tame inflation without causing a sharp increase in unemployment.

SURVEY-BASED INFLATION DATA HAVE TICKED UP  
CONSUMER AND SMALL BUSINESS INFLATION EXPECTATIONS



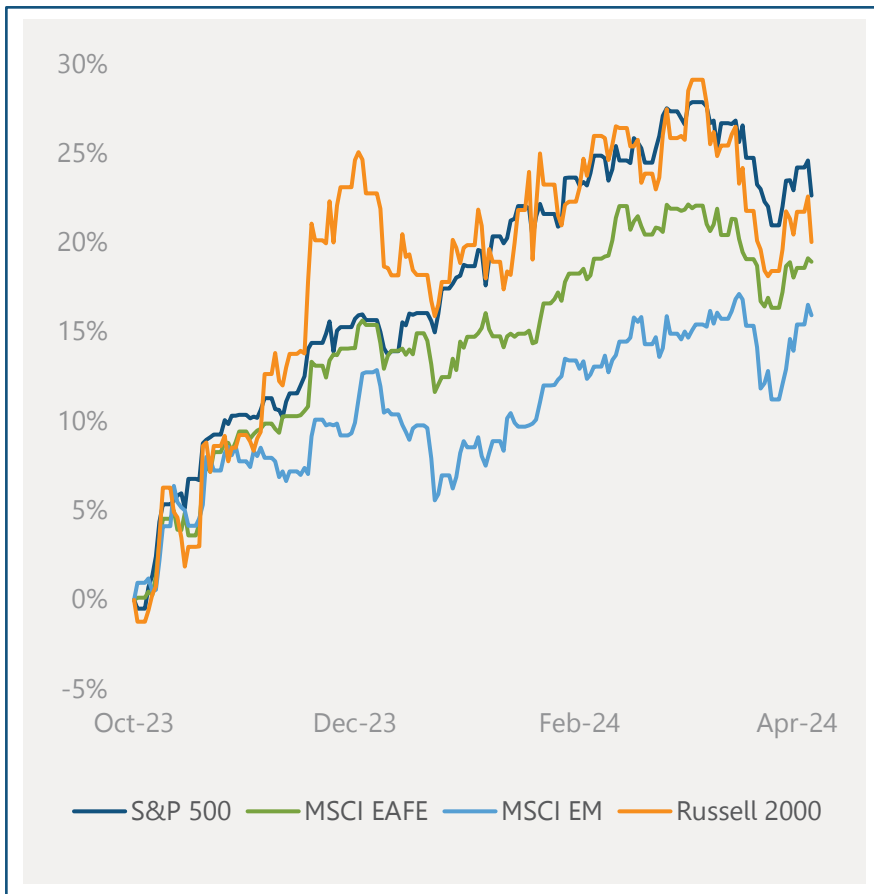
Source: Bloomberg.

The near-term inflation expectations of consumers and small businesses may have bottomed in recent months after trending lower over the last two years. These expectations can sometimes serve as useful leading indicators for broad measures of price level changes, including the consumer price index (CPI).

A net 28% of respondents to the National Federation of Independent Businesses (NFIB) March survey indicated they expect to raise average selling prices over the next three months, up from 21% in February and the highest proportion since October. This reading peaked at 66% in March 2022, three months before the annual consumer price index (CPI) recorded a 40-year high of 9.1%.

In the preliminary University of Michigan Consumer Sentiment Index for May, the median survey response indicated an expectation that inflation will be 3.5% over the next twelve months. This is an increase from a three year-low of 2.9% in March, but it is still well below the four-decade high of 5.4% in April 2022.

**EQUITY RALLY LOSES MOMENTUM**  
PERFORMANCE 10/26/2023 THROUGH 4/30/2024



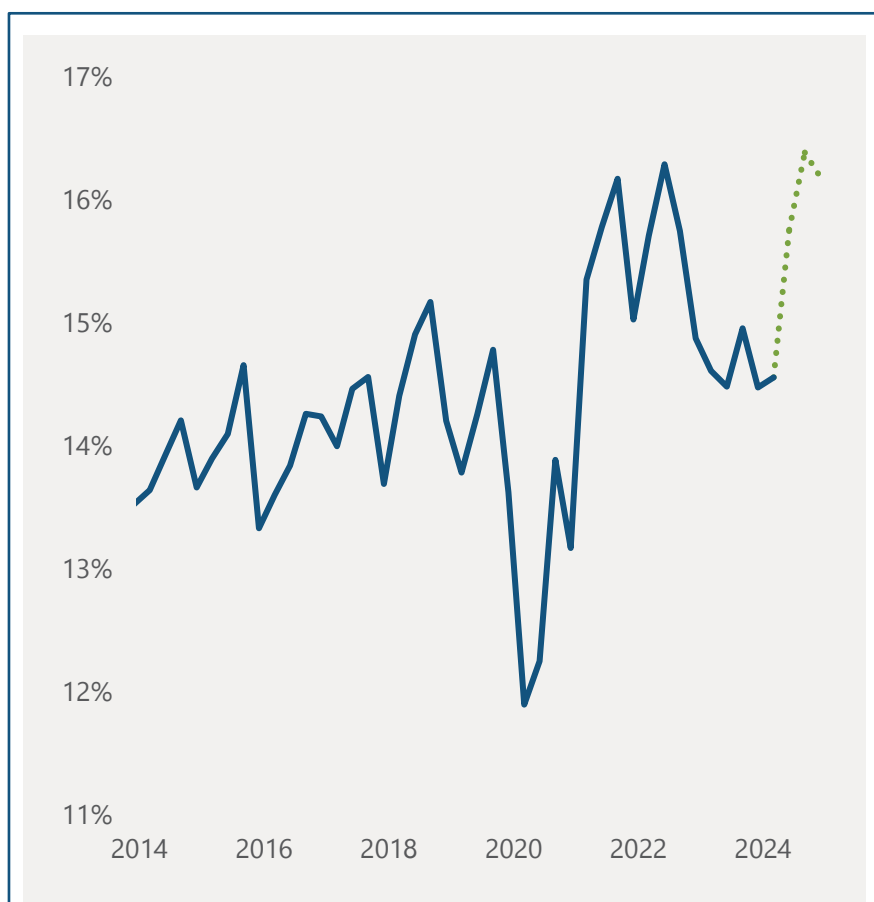
Source: Morningstar.

The S&P 500's rally from its late October low lost momentum in April as stubborn inflation led to higher interest rates and concerns the Federal Reserve might keep interest rates higher for longer. The index posted its first monthly pullback in six months with a 4.08% decline in April. Equity indexes recovered some of their losses late in the month amid encouraging first quarter earnings results, particularly among the Magnificent Seven.

Areas of the market with greater interest rate-sensitivity, such as the real estate sector and small capitalization stocks, fell more in the month. The S&P 500 Real Estate sector fell 8.50%, while the Russell 2000 was down 7.04%.

Emerging market equities outperformed in the month with a 0.45% return for the MSCI EM index. The index's positive return was driven by the MSCI China index's 6.60% rebound. Encouraging economic data suggest China's central bank monetary easing might be helping the economy rebound after a rough 2023. The Caixin China Manufacturing Purchasing Managers' Index (PMI) reached a 13-month high in April.

**S&P 500 MARGIN REBOUND EXPECTED**  
S&P 500 OPERATING MARGIN, Q2 24 - Q4 24 FORECAST



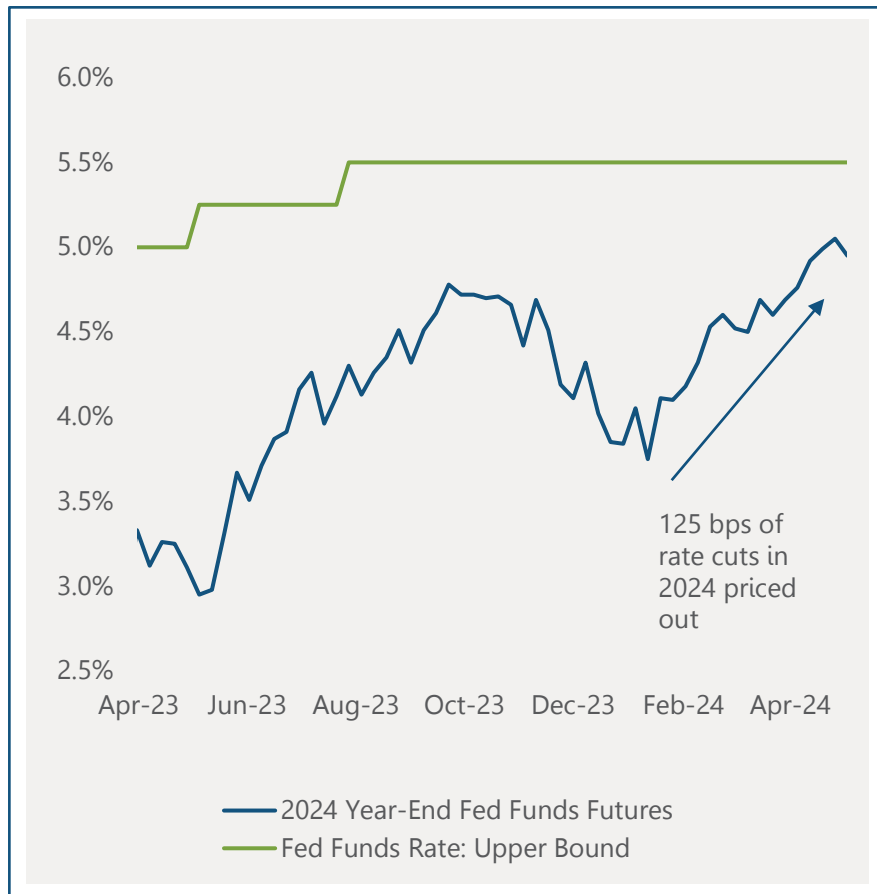
Source: Bloomberg. Dotted line indicates analysts' operating margin projection for Q2 2024 through Q4 2024.

The S&P 500's first quarter earnings are on track for a third consecutive quarter with positive growth following three quarters of contractions. Earnings reporting season is winding down with results reported from 400 companies in the S&P 500, accounting for 80% of the index's market capitalization. The index's earnings are on pace for 6.5% growth, compared to analysts' estimates for a mediocre 3.8% increase. Earnings from the Magnificent Seven companies continue to drive the index's profit growth. Excluding the Magnificent Seven, S&P 500 earnings are on pace to be down 1.2%, the fifth straight quarter with negative growth due to margin pressures.

S&P 500 operating margin is on track for 14.56%, slightly below analysts' forecast for 14.83% and 14.62% a year ago. This will be the seventh consecutive quarterly operating margin contraction year over year. Analysts project margin expansion in the second quarter as easing inflation pressures and cost cutting help to stabilize profitability.

S&P 500 revenue growth is also on pace to exceed analysts' projection at a rate of 4.2% + versus the 3.4% forecast. Sales growth is being led by the technology, communications, health care, and financials sectors each posting growth around 7%.

UNWINDING RATE CUTS IN 2024  
FED POLICY RATE AND YEAR-END EXPECTATIONS



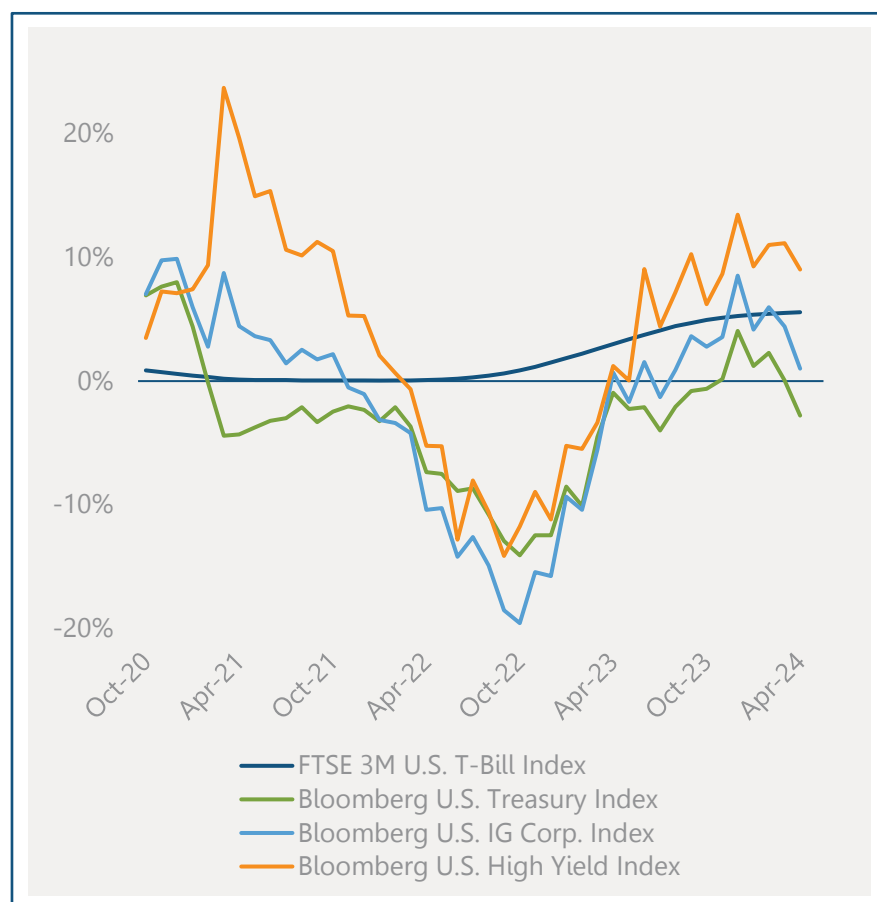
Source: Bloomberg.

Sticky inflation data to start the year along with stronger-than-expected nonfarm payroll gains in February and March caused investors to recalibrate their expectations for the timing and magnitude of Fed policy easing in 2024.

On January 12, fed fund futures pricing indicated a nearly 80% probability of a 0.25% rate cut at the Federal Open Market Committee's (FOMC) March 19-20 meeting and an additional 1.50% worth of cuts by the end of 2024. By the first week of May, market-based expectations had been reduced to less than 0.50% of policy easing by the FOMC's final meeting of the year on December 17-18.

Fed Chair Powell struck a somewhat dovish tone at his May 1 press conference following the FOMC's decision to keep its policy rate unchanged in a range of 5.25% to 5.50% for the fifth straight meeting. Powell said he views policy as restrictive and expects the next move to be a cut, not a hike.

BONDS OFF TO A SLOW START  
U.S. FIXED INCOME ROLLING 12-MONTH RETURNS



Source: Bloomberg.

The rolling 12-month returns of broad U.S. investment-grade and Treasury indexes reentered positive territory in the second half of 2023 but have since wavered amid a backup in yields in the first four months of this year.

Despite recent return headwinds, two straight years of gradually increasing coupons across the government and corporate bond market should provide better protection against another potential bout of higher rates than was the case in 2022.

U.S. high yield bonds have been among the top performing fixed income asset classes in recent quarters as narrow credit spreads and a significant coupon cushion have supported returns.

The foresight of many management teams in the below-investment grade market in 2020 and 2021 to refinance into low fixed-rate debt and extend their average maturity profile has 1) reduced the need for near-term issuance and 2) likely created a better buffer to navigate any periods of potential economic weakness in 2024.

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