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Stocks and bonds both experienced declines in April. Large cap stocks in the S&P 500 index fell -4.1% in April and are now up 6.0% year-to-date. Small cap stocks in the Russell 2000 lost -7.0% in April leaving them down year-to-date by -2.2%. International stocks in MSCI EAFE also fell -2.6%, reducing their cumulative annual gain to 3.1%. Notably, emerging market stocks rose 0.5% for the month and are now up 2.8% YTD. The yield on the 10-year Treasury bond continued its march higher, ending the month at 4.6%. The higher yield for the Barclays US Aggregate Bond Index consequently led to a loss of -2.5% for April and -3.3% year-to-date.

The GDP growth rate for the first quarter of 2024 was 1.6%, much lower than the growth rate expected by economists. Initial estimates had been for 2.5% growth. The same report also showed a startling rise in inflation. The personal consumption expenditures (PCE) price index increased 3.4%, compared with an increase of 1.8% in the fourth quarter of 2023, according to the Bureau of Economic Analysis. This is the inflation index the Fed watches most closely when determining how well inflation is controlled.

Corporate earnings are expected to be stronger in 2024 than the previous year. With almost half of the S&P 500 stocks reporting, year-over-year earnings growth for the first quarter is expected to grow at 5.6%. Earnings will need to accelerate in coming quarters to meet expectations for the full year.

Large growth stocks continue to outpace value stocks so far in 2024. Large Growth stocks are up 6.7% YTD through April while small stocks have negative returns. This is primarily because earnings growth in the large tech sector has been robust while small cap stocks continue to struggle to make a profit. Approximately 42% of companies in the small cap index are failing to make a profit currently.

The inflation trajectory had been reflecting steady improvement until this past month when inflation made a startling reversal. Higher inflation rates put the Fed in an uncomfortable position after planning to make several interest rate cuts this year. They have said for months that their decision to cut rates will be data dependent and will only occur when they are confident they will achieve their 2.0% inflation target. The inflation data this month have led most Fed watchers to believe we may not see any rate cuts this year. If we do see cuts, they likely won’t come until this fall.

Unemployment is still low at just 3.9%, though we are seeing some weakness in the employment picture. The April employment report showed just 175,000 new jobs created according to the establishment survey. This was considered a weak report that was welcomed by equity markets because it gives the Fed a reason to cut rates. The combination of persistently high inflation and slowing economic growth has caused the term “Stagflation” to reenter the lexicon. This was a term used to describe economic conditions during the Carter administration, that led to his failed bid for re-election.

We continue to encourage investors not to try and time the market by trading in and out and instead invest according to risk tolerance. If you have questions about the strategy for your account, please contact your advisor.