The Weekly Market Update – 4/8/24: Jobs Growth Acceleration Lifts GDP Outlook

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,204.34	-0.95%	-0.95%	9.11%	26.65%	5,254.35	1.0%
Dow Jones Industrial Average	38,904.04	-2.27%	-2.27%	3.22%	16.92%	39,807.37	2.3%
NASDAQ Composite	16,248.52	-0.80%	-0.80%	8.24%	32.95%	16,428.82	1.1%
Russell 2000	2,063.47	-2.87%	-2.87%	1.80%	14.48%	2,442.74	18.4%
MSCI EAFE (USD)	2,317.36	-1.26%	-1.26%	3.63%	10.74%	2,398.71	3.5%
MSCI Emerging Markets (USD)	1,045.71	0.51%	0.51%	2.15%	5.60%	1,444.93	38.2%
Bloomberg Commodity Index	102.90	3.42%	3.42%	4.31%	-2.48%	237.95	131.3%
Barclays U.S. Aggregate Bond	89.42	-1.18%	-1.18%	-2.48%	-1.83%	112.07	25.3%

Source: FactSet

A strong March employment report reflected a buoyant jobs market, stoking expectations for continued, above-trend economic expansion. According to the U.S. Bureau of Labor Statistics (BLS), March 2024 nonfarm payrolls (jobs) increased by +303 thousand (K), exceeding the +205K FactSet consensus (from Wall Street economists) estimate. Following revisions over the past two months, the March jobs gain exceeded both January and February and the monthly jobs gain in the first quarter (1Q24) averaged +276K, the strongest quarterly average in the past four quarters. While we expect monthly jobs gains to slow in 2024 (2023 nonfarm payroll gains averaged +251K monthly), that was not the case in 1Q24, and a strong jobs market provides ongoing support for consumer spending and solid economic growth expectations. The consensus estimate for 1Q24 growth in gross domestic product (GDP, as reported by the Bureau of Economic Analysis, BEA) was +2.0% annualized, as of 4/5/24, up from +0.6% at the end of December. The Atlanta Federal Reserve Bank's GDPNow forecast, which tracks current quarter GDP trends as data is reported, was even better than that (as of 4/4/24), pointing to 1Q24 GDP growth of +2.5% (from data through February). The March 2024 jobs data included gains from service sectors (education, health care, and leisure & hospitality), goods-producing sectors (led by construction as manufacturing jobs were flat), and government hiring (led by local government). The 1Q24 (all three months) nonfarm payrolls increase of +829K was led by health care (+250K), government (mostly state and local, +243K), and construction (+160K). A significant contributor to sustained jobs growth above expectations over the past several months, in our opinion, was immigration at the U.S. southern border. Many asylum seekers begin undocumented but can receive work permits over time. The BLS' monthly employment surveys do not ask for immigration status and the BLS acknowledges that its jobs survey likely includes some undocumented workers. The survey does measure foreign born vs. native born workers, although country of birth does not confirm immigration status. On that front, over the past 12 months, jobs for foreign-born workers increased by +1.3 million, while native-born jobs decreased -651K. While the large increase in southern border immigration creates potential long-term economic and policy challenges, we believe it has added to GDP data in recent quarters.

Sustained economic growth has led to an uptick in interest rates and softer expectations for future interest rate cuts from the Federal Reserve Bank (Fed). As of 4/8/24, the U.S. 10-year Treasury bond yield (which we view as a proxy for long-term interest rates) was 4.42%, the highest level since November last year. Since late 2023, market expectations have priced in a drop in short-term interest rates, based upon the Fed looking to reduce its overnight, bank-lending fed funds interest rate target from its current target of 5.25% to 5.50% (its range since July 2023). The CME Fed Watch Tool (which uses fed funds futures contracts to assess probabilities), as of 4/8/24, reflects a 51% probability of a 0.25% interest rate cut at the Fed's 6/12/24 meeting, and now a 50% chance of just 0.50% of cuts by year-end 2024. Interest rates trending higher from current levels could limit equity market upside in the months ahead.

While 1Q24 earnings reports will begin this week with money-center banks reporting, the focus will be on key March inflation data. The BLS will report the March consumer price index (CPI) on 4/10/24. While the year-over-year CPI is expected to modestly improve to +3.7% (from +3.8% in February), the core CPI (excludes food and energy prices) is expected to increase to +3.4% in March from +3.2%. An uptick in inflation could drive interest rates higher.

James D. Ragan, CFA
Director of WM Research
(206) 389-4070
jragan@dadco.com

Important Disclosure: The information contained herein has been obtained by sources we consider reliable, but is not guaranteed and we are not soliciting any action based upon it. Any opinions expressed are based on our interpretation of data available to us at the time of the original publication of the report. Assumptions, opinions, and estimates constitute our judgment as of the date of this report and are subject to change without notice. Investors must bear in mind that inherent in investments are the risks of fluctuating prices and the uncertainties of dividends, rates of return and yield, as well as broader market and macroeconomic fluctuations and unforeseen changes in the fundamentals or business trends affecting the securities referred to in this report. Investors should also remember that past performance is not indicative of future performance and D.A. Davidson & Co. makes no guarantee, express or implied, as to future performance. The information is not intended to be used as the primary basis of investment decisions. Because of individual client requirements, it should not be construed as advice designed to meet the particular investment needs of any investor. It is not a representation by us, or an offer, or the solicitation of an offer, to sell or buy any security. Further, a security described in a report may not be eligible for solicitation in the states in which a client resides. D.A. Davidson & Co. does not provide tax advice and investors should consult with their tax professional before investing. Further information and elaboration is available upon request.

Market Indices: The information on indices is presented for illustrative purposes only and is not intended to imply the potential performance of any fund or investment. Indices provide a general source of information on how various market segments and types of investments have performed in the past. Index performance assumes the reinvestment of all distributions, but does not assume any transaction costs, taxes, management fees, or other expenses. You may not invest directly in an index. Past performance is not an indicator of future results. The Russell 2000® Index is a market cap weighted index that measures the performance of the 2,000 smallest companies in the Russell 3000® Index. The S&P 400 Index is a market cap weighted index comprised of U.S. stocks in the middle capitalization range, generally considered to be between $200 million and $5 billion in market value. The S&P 500 Index is a market cap weighted index that is designed to measure the US large-cap equity performance. The index is composed of the 500 leading publicly traded US companies based on size, liquidity, industry, and profitability criteria. The Dow Jones Industrial Average is a price weighted index that tracks 30 large, publicly-owned companies trading on the New York Stock Exchange (NYSE) and the NASDAQ. The MSCI EAFE® Index (Europe, Austral, Asia, Far East) is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the US and Canada. The MSCI Emerging Markets Index is a free float-adjusted market capitalization index that is designed to measure equity market performance in the global emerging markets.