The Weekly Market Update – 5/20/24: Is 40,000 Just A Number?

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	5,303.27	1.54%	0.93%	11.18%	27.19%	5,308.15	0.1%
Dow Jones Industrial Average	40,003.59	1.24%	0.49%	6.14%	17.32%	40,003.59	0.0%
NASDAQ Composite	16,685.97	2.11%	1.87%	11.16%	36.47%	16,742.39	0.3%
Russell 2000	2,095.72	1.74%	-1.36%	3.39%	18.47%	2,442.74	16.6%
MSCI EAFE (USD)	2,381.35	1.50%	1.47%	6.49%	11.08%	2,398.71	0.7%
MSCI Emerging Markets (USD)	1,099.79	2.63%	5.71%	7.43%	12.56%	1,444.93	31.4%
Bloomberg Commodity Index	105.74	2.88%	6.29%	7.20%	1.37%	237.95	125.0%
Barclays U.S. Aggregate Bond	89.56	0.54%	-1.03%	-2.33%	-2.09%	112.07	25.1%

Source: FactSet

The Dow Jones Industrial Average (DJIA) closed at 40,004 on 5/17/24, the first close above 40,000 and an all-time high. The widely followed index of 30 prominent companies first moved above 30,000 in November 2020, and by January 2022 had traded to nearly 37,000. In 2022's bear market, the DJIA declined to a low of 29,211 (on 10/23/22) and has recovered over the past 18 months. As of 5/17/24, the DJIA month-to-date price return (not including dividends) was +5.8%, taking the year-to-date (YTD) increase to +6.1%. While the price-weighted DJIA adequately measures the performance of a diversified basket of dominant U.S. companies, we prefer to use the market capitalization-weighted S&P 500 index to track the large-company U.S. equity market. The DJIA was created in 1896 (the S&P 500 was created in 1957) and arguably remains the most widely recognized global index. Despite including just 30 stocks vs. 500+ for the S&P 500, the performance of the DJIA has tracked the S&P 500 closely; from 12/31/99 to 5/17/24, the DJIA compounded annual return (without dividends) was +5.2% vs. +5.4% for the S&P 500. And including reinvested dividends, the DJIA return beat the S&P 500 since 12/31/99, +7.7% vs. +7.4% (compounded annually), respectively. As the DJIA closed above 40,000, the S&P 500 also surged to a new high (5,308) last week, closing above 5,300 for the first time. Month-to-date, the S&P 500 price return was +5.3%, and the 2024 YTD price gain was an equity market-leading +11.2%. U.S. interest rates (as reflected by U.S. Treasury yields) have moved lower since late April, driving positive investor sentiment, in our view. The U.S. 10-year Treasury yield (a proxy for long-term interest rates) was 4.35% on 5/16/24, down from 4.70% three weeks earlier. Among recent S&P 500 sector gains were Utilities (+8.0%) and Real Estate (+7.1%) for the month-to-date. Both sectors often perform better as interest rates fall (reducing the cost of capital and increasing the allure of dividend payments), and recent gains suggest that investors could be anticipating even lower interest rates ahead.

A key measure of consumer inflation in April trended lower, slowing the first quarter trend. The consumer price index (CPI, from the Bureau of Labor Statistics) showed a year-over-year (Y/Y) increase in prices of +3.4%, below the +3.5% increase in March. Core CPI, which excludes food and energy prices, increased +3.6% in April (vs. +3.8% in March). Inflation data for the first quarter of 2024 (1Q24), a 3-month period, was modestly higher than 4Q23, creating concerns that inflation could remain stubbornly above +3.0% for an extended period. For now, the story is goods vs. services. In April, prices for goods dropped -1.3% Y/Y and -0.1% M/M as new and used cars, appliances, furniture, tools, and hardware were all lower. This can provide some consumer relief, but also suggests potential spending headwinds. At the same time, services inflation surged +5.3% Y/Y and +0.4% M/M. This included higher costs for shelter (rent and home ownership), medical care, auto insurance, and entertainment. Many look for shelter costs to fall, but higher prices continue to reflect consumer spending patterns that have shifted to services. Despite April's modest CPI improvement, more is needed.

With U.S. equities at new highs, investors will evaluate multiple factors to keep the party going. 1Q24 earnings for the S&P 500 index are on pace for +6% growth, ahead of pre-report expectations for +3% growth. This raises confidence that earnings can grow +11% in 2024, after just +2% growth in 2023. Minutes from the Federal Reserve Bank's (Fed) May meeting are due on 5/22/24, potentially providing context on the Fed's confidence in implementing interest rates cuts later this year. With recent data (retail sales) pointing to slower consumer spending, the 2Q24 FactSet consensus estimate for U.S. economic growth is +1.5%.

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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.

The Global Industry Classification Standard (GICS) is a four-tiered, hierarchical industry classification system. Companies are classified quantitatively and qualitatively. Each company is assigned a single GICS classification at the Sub-Industry level according to its principal business activity. MSCI and S&P Dow Jones Indices use revenues as a key factor in determining a firm's principal business activity. The 11 sectors are: Communication Services, Consumer Discretionary, Consumer Staples, Energy, Financials, Health Care, Industrials, Information Technology, Materials, Real Estate, and Utilities.

U.S. economic growth: Gross domestic product (GDP) refers to the monetary measure of the market value of all final goods and services produced within a country's borders within a specific time period. Real GDP is adjusted for the impact of inflation. The most recent GDP report can be found at www.bea.gov.

S&P 500 earnings growth reflects the year-over-year change in operating earnings on a per share basis. Earnings data are aggregated for all S&P 500 constituents and are measured according to the relative market capitalization weights for each company. Estimated earnings are the combined FactSet estimates of analysts covering each company included in the index.

FactSet is a data aggregation software utilized by D.A. Davidson's Wealth Management Research. The FactSet consensus refers to the aggregate of all analysts' estimates from firms that submit estimates to FactSet for a given financial metric.

The consumer price index (CPI) is a measure of average change, over time, in the prices paid by urban consumers for a market basket of goods and services. It is reported monthly by the U.S. Bureau of Labor Statistics. Y/Y is year-over-year and M/M is month-over-month.

We define a "bear market" as a peak-to-trough decline (using closing prices) of -20% or more. We generally use the S&P 500 index as a proxy for the broad market for large, leading U.S. companies.

The Federal Reserve Bank's Open Market Committee (FOMC) consists of twelve members – the seven members of the Board of Governors of the Federal Reserve System, the president of the Federal Reserve Bank of New York, and four of the remaining eleven Federal Reserve Bank presidents, who serve one-year terms on a rotating basis. The FOMC holds eight regularly scheduled meetings per year. At these meetings, the Committee reviews economic and financial conditions, determines the appropriate stance of monetary policy, and assesses the risks to its long-run goals of price stability and sustainable economic growth.

The Treasury yield curve displays the market interest rate across different contract lengths for U.S. Treasury securities, indicating the relationship between the interest rate and the time ("term") to maturity. The yields of the 2-year and 10-year U.S. Treasury notes are widely followed barometers of the current U.S. interest rate environment. Treasury security data used in calculating interest rate spreads is obtained directly from the U.S. Treasury Department, through FactSet.