D|A DAVIDSON WEALTH MANAGEMENT

The Weekly Market Update – 4/22/24: Technology Stocks Roll (Over)

Major Indices (Price Returns)	Close	Last Week	Quarter-to-Date	Year-to-Date	Trailing 12-Months	All-Time High	% to High
S&P 500	4,967.23	-3.05%	-5.46%	4.14%	20.88%	5,254.35	5.8%
Dow Jones Industrial Average	37,986.40	0.01%	-4.57%	0.79%	14.16%	39,807.37	4.8%
NASDAQ Composite	15,282.01	-5.52%	-6.70%	1.80%	25.04%	16,442.20	7.6%
Russell 2000	1,947.66	-2.77%	-8.33%	-3.92%	8.05%	2,442.74	25.4%
MSCI EAFE (USD)	2,236.31	-2.33%	-4.71%	0.01%	6.87%	2,398.71	7.3%
MSCI Emerging Markets (USD)	1,004.17	-3.60%	-3.48%	-1.91%	1.40%	1,444.93	43.9%
Bloomberg Commodity Index	103.06	0.13%	3.58%	4.47%	-2.32%	237.95	130.9%
Barclays U.S. Aggregate Bond	88.23	-0.59%	-2.50%	-3.78%	-3.13%	112.07	27.0%

Source: FactSet

An April pullback in U.S. equity markets deepened as technology and growth-centric stocks faltered. The widely followed, large-company S&P 500 equity index dropped -3.0% last week, and with three consecutive weekly declines was down -5.5% in April to-date (as of 4/19/24). The Technology (Tech) sector (all constituents in the S&P 500 are represented in one of eleven Global Industry Classification Standard, GICS, sectors, as defined by MSCI) led the market lower with a weekly drop of -7.3%. Other sectors were lower as well. Consumer Discretionary (-4.5%), Real Estate (-3.6%), and Communications Services (-3.2%) all fell more than the index, but four sectors posted weekly gains (Utilities, Consumer Staples, Financials, and Health Care). This renews the question: can the S&P 500 move higher if its largest sector, Tech, moves lower? As of 4/19/24, Tech comprised 28.7% of the total market capitalization of the index, more than double the next largest sector, Financials, at 13.3%. We continue to view the valuation of the S&P 500 as elevated (the index trades at 19.8x the FactSet consensus earnings estimates over the next four quarters), which can limit upside potential in 2024. However, we see potential for wider sector participation and better relative performance both from the average stock and in sectors away from Tech. We remain comfortable with Tech exposure but advocate for rebalancing portfolios to improve sector diversification in high-quality companies. Given solid economic trends in the first quarter of 2024, we see the potential for better-than-expected earnings (as the year progresses) from economically exposed ("cyclical") sectors including Industrials, Materials, Financials, and Energy.

Earnings to the rescue? As the season for S&P 500 companies to report March quarter financial results gets underway, investors are increasingly on edge. On the last day of the quarter (3/31/24), the FactSet consensus 1Q24 EPS growth estimate for the S&P 500 was +4%, but as of mid-April (4/19/24), the estimate had trended lower to +1%. This expectation is below earnings growth of the prior two quarters, 4Q23 +5%, and 3Q23 +6%, and perhaps reflects fears about revenue growth and margin pressure. If actual results exceed these modest expectations, however, the investor response could be positive. Double-digit percentage earnings growth is expected for Communications Services, Utilities, Technology, and Consumer Discretionary, and those sectors will receive quite a bit of attention, but since the end of March, estimates for Financials and Industrials have moved higher. Through 4/19/24, 14% of the S&P 500 had reported results. According to FactSet's Earnings Insight publication, 74% of those companies exceeded earnings per share (EPS) estimates, in-line with the 10-year average, and those results exceeded estimates by +8%. If that pattern holds (still early days), we expect reported earnings above the most recent estimates.

In addition to a big week for earnings reports, we await the initial report of 1Q24 U.S. economic growth, and a key inflation reading to close the week. This week, 31% of the S&P 500 (158 companies) are set to report March quarter results, and will command significant investor attention. At the same time (Thursday), the Bureau of Economic Analysis (BEA) will report 1Q24 gross domestic product (GDP) for the U.S. economy. The FactSet consensus estimate reflects GDP growth of +2.2% (sequential growth annualized) and that estimate has trended consistently higher since the end of 2023, when the 1Q24 estimate was +0.6%. On Friday, the BEA will report the March personal consumption expenditures price index (PCE PI), the Federal Reserve Bank's preferred measure of consumer inflation. The PCE PI is expected to show a +2.6% year-over-year (Y/Y) increase, with core PCE PI (ex-food/energy) estimated at +2.7% Y/Y.

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