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MARKET MINUTE

APRIL REVIEW 2024

This month's Market Minute reflects the views of our Investment Office and was composed by
Thomas Seay, Senior Managing Director, Research, Clearstead

OVERVIEW

April turned out to be a month that pitted competing economic forces against each other. Robust labor markets, strong consumer spending, and solid corporate earnings news headlines were prevalent despite persistent inflation data that is higher than expected. For a Federal Reserve that says policy is "data dependent," the inflation data would appear to force the Fed's hand to keep rates higher for longer. The financial markets have not responded favorably to this probable outcome.

April saw the continuation of one of the most consistent features of this year: the gradual rise in the yield of a 10-year Treasury. At the end of March, the yield on a 10-year Treasury was 4.20% and, as we wind down April, it stands at 4.68%—climbing over 40 basis points. Recall that we started the year with a yield on a 10-year Treasury at 3.88%.[1] After reaching an all-time high close on March 28th, the S&P 500 took a breather in April, giving back about 40% of the gains from Q1.[1] The volatility experienced in the bond market in 2024's first four months may be a precursor to the volatility in equities as well over the next few months.

U.S. EQUITY MARKETS As of April 30, 2024

U.S. EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
DJIA	-4.9%	-4.9%	0.9%	13.3%
S&P 500	-4.1%	-4.1%	6.0%	22.6%
Russell 2000	-7.0%	-7.0%	-2.2%	13.3%
Russell 1000 Growth	-4.2%	-4.2%	6.7%	31.8%
Russell 1000 Value	-4.3%	-4.3%	4.3%	13.4%

After returning over 10% in Q1, US equities traded lower for three straight weeks. At its lowest in April, the S&P 500 traded below 5,000 and briefly came close to its 100-day moving average. However, at point traders refocused on the reasonably good (thus far) Q1 earnings reports as well as the fact that the US economy is largely doing better than expected—notwithstanding the weaker than expected Q1-GDP growth figure from late in the month—and the S&P 500 moved higher in five of the last seven trading days of April. Overall, US equities finished the month lower across the board and most sectors declined, with only Utilities being the exception and trading higher in April. The S&P 500 lost -4.1%, while mid-caps (Russell Midcap Index) lost -5.4% and small caps (Russell 2000 Index) lost -7.0%. There was little difference between growth and value stocks in April at the large cap level (Russell 1000 Growth Index -4.2% vs. the Russell 1000 Value Index -4.3%), but, further down the cap spectrum value, stocks generally outperformed their growth peers on a relative basis.

INTERNATIONAL EQUITY As of April 30, 2024

INTERNATIONAL EQUITY MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
MSCI ACWI ex USA	-1.8%	-1.8%	2.8%	9.3%
MSCI EAFE	-2.6%	-2.6%	3.1%	9.3%
MSCI Emerging Markets	0.4%	0.4%	2.8%	9.9%
MSCI EAFE Small Cap	-3.0%	-3.0%	-0.6%	5.1%

In a similar vein, international developed equites (MSCI EAFE Index) also traded lower in April, losing -2.6%. International value stocks generally fared better than their growth peers (MSCI ACWI ex US Value Index -0.8% vs. MSCI ACWI ex US Growth Index -2.8%) and small caps stocks generally traded in-line with their large cap peers. Meanwhile emerging market equities (MSCI EM Index) traded higher in April, gaining +0.4% on the back of strong gains in Chinese equites. One of the most notable, and perhaps surprising, developments in April was the surge in the Chinese stocks. The MSCI China Index—large cap Chinese equities largely sold on the Hong Kong Stock Exchange—gained +6.6% in April. The recent gains in Chinese equities stem from the consensus that Chinese economic growth and earnings are likely to fair better than expected in 2024 as well as the fact that the recent meetings between US and Chinese officials seemed to have put a floor underneath US-China relations. It is likely, however, that the US-China relationship grows tenser this Summer and Fall as both Presidential candidates announce and outline their economic and security policies vis-à-vis China, which may feature additional trade restrictions, tariffs, and other measures that may set-back some of the recent progress to mend relations between the world's two largest economies.

FIXED INCOME As of April 30, 2024

FIXED INCOME MARKETS				
Index	1 Month	Quarter-To-Date	Year-To-Date	1 Year
BarCap US Aggregate	-2.5%	-2.5%	-3.3%	-1.5%
BarCap Global Aggregate	-2.5%	-2.5%	-4.6%	-2.5%
BarCap US High Yield	-0.9%	-0.9%	0.5%	9.0%
JPM Emerging Market Bond	-2.0%	-2.0%	-0.6%	6.8%
BarCap Muni	-1.2%	-1.2%	-1.6%	2.1%

Not only did 10-year yields dramatically increase in April, but the entire yield curve increased, as the 2-year yield was up 42 basis points to close above 5%.[1] As such, looking for protection against higher rates was difficult. The Bloomberg Long Government/Credit index was down -5.46%, the intermediate-term Bloomberg Aggregate index declined -2.53%, and the short-term Bloomberg 1–3-year Government Credit index fell -0.33%.[1] Riskier sectors like high yield and emerging market debt also suffered negative returns for the month.

It is possible that, should the US economy continue to surprise to the upside in May and June, the yield on the 10-year Treasury could re-test its previous multi-year high of 5%.

CONCLUSION & OUTLOOK

On balance, the stronger than expected economy has buoyed risk assets such as equities and high yield bonds, while the Fed's caution has weighed on longer duration bonds such as 10-year US Treasuries. As we look forward, it seems reasonable to assume that the S&P may be somewhat range bound over the remainder of Q2 as equity markets determine if the recent positive economic surprises translate into greater corporate revenue and earnings growth for this year.

Recall the year began with the market predicting the Fed Funds rate would be cut 5 or 6 times in 2024; at this point, the Fed-Fund Futures have priced in only one Fed cut for sure this year. If the 10-year Treasury yield tests and holds at 5%, a range of 3.9% at the low end and 5% at the high end could be established as we stay higher for longer and wait for the data to give the Fed the all clear sign to begin to ease monetary policy. So long as the Fed isn't forced to raise rates any higher this year—a low probability scenario, but one that cannot be fully ruled out—equities markets will likely keep one eye focused on the strength of the U.S. economy and the slow (but steady) rebound in global trade, and the other on the key geopolitical risks such as the wars in the Middle East and Ukraine. So long as these geopolitical risks remain manageable, corporate earnings should begin to reflect an improving macroeconomic environment.

SOURCES

1 Bloomberg LP

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