Convergence Commentary

April 2024 Market Recap

Quick Hits:

- The five month winning streak ends.
- Iran and Israel exchange attacks.
- Inflation progress falters.
- The global economy continues its strength.

Market-Moving Highlights

So far, 52.6% of the S&P 500 companies reported earnings for the first quarter. Overall, results have beat sales by 1.2% and beat earnings by 8.8%. Technology, consumer discretionary, and communication services were the biggest leaders of the market rally so far. What is encouraging about the recent report is that healthcare and industrials are also starting to beat estimates with double-digit numbers, suggesting a potential further broadening of the rally. However, companies in April were not as rewarded for their good performance as inflationary and geopolitical tensions took the spotlight.

On April 1st, Israel struck an Iranian embassy complex in Damascus, Syria, killing seven Iranian officials, including three senior military leaders. On Saturday, April 13th, Iran launched a wave of around 300 attack drones and missiles towards Israel, in an escalation of tensions in the Middle East. These developments spooked the global markets. It was unclear what the damage would be, nor how Israel would retaliate. However, Israel's Iron Dome System (a mobile all-weather air defense system), has shot down most of the attack, and the rest caused minimal damage. Pressured by allies to not further escalate, Israel shot two missiles at an anti-aircraft battery in central Iran. Once the first missile hit the target, the other missile was intentionally shut down by the Israeli Air Force, according to Israeli officials. The fact that the last two attacks by both Iran and Israel did not end in any casualties, nor did they cause any significant damage, was an encouraging sign to the world. While uncertainty in the region remains high, a wider war was avoided.

Inflation came in slightly hotter than expected for the fourth month. CPI came in at 3.5% year-over-year and 0.4% month-over-month. The expectations were for 3.4% and 0.3%. The culprits continue to be energy and transportation services. Core CPI stayed at 3.8% and 0.4% monthly, but expectations were for 3.7% and 0.3%. We talked in our last commentary about the seasonality associated with the start of the year (the first three readings). Many economists were hopeful that now that the seasonality is gone, perhaps inflation readings will become more positive than consensus again. For this reading, it seems like that was not the case. While that may still change, the Goldilocks scenario of positive inflation readings and a strong economy is loosening its grip.

On the 28th of April, Elon Musk unexpectedly met with the Chinese Premier Li Qiang in Beijing. Tesla has reached an accord to roll out FSD, its autopilot software, in China. The details surrounding data integrity are currently unknown, however, the deal gave some hope for relations between the US and China.

Index Performance

Index	1 Month	YTD	1 Year	5 Year
S&P 500	-4.08%	6.04%	22.66%	13.19%
Nasdaq Composite	-4.38%	4.52%	29.08%	15.07%
Russell 2000	-7.04%	-2.22%	13.32%	5.83%
MSCI ACWI ex US	-1.72%	3.01%	9.88%	5.54%
Bloomberg US Aggregate Bond	-2.53%	-3.28%	-1.47%	-0.16%

After a 5-month winning streak for the S&P 500, April created a demanding environment for equities. Due to discouraging US inflation data, 10-year Treasury yields increased from 4.26% to 4.68%. It is mostly thanks to this development that the US equities underperformed the ex-USA index so drastically. As we discussed previously, small caps are more interest-rate sensitive and therefore suffered even slightly more. Additionally, the ongoing war in Ukraine and tensions between China and the US made the equities even more vulnerable to escalation in the Middle East. Despite that, economic momentum continues, and it is not only a US story. Europe has been beating expectations on both earnings and GDP, as well as Japan, and India. Even China, which has been more of a horror story for investors as of late, has had some encouraging economic data in April. The global economic strength provides hope that the tough month for investors was just a healthy pullback.

S&P 500 Sector Highlights & Commentary

Best-Performing Sectors		Worst-Performing Sectors	
Utilities	1.66%	Real Estate	-8.45%
Energy	-0.94%	Technology	-5.76%
Consumer Staples	-1.13%	Healthcare	-5.01%

Defensive sectors outperformed in April, due to negative news (inflation, geopolitics) prevailing. Focus on energy needs of technological advancements aided both the utilities and the energy sector. Although energy has been benefiting from rising gas prices, it is still surprising to see utilities top the list with yields increasing. Consumer staples mostly benefited from being a defensive sector.

On the worst-performing front, Real Estate faces a lot of uncertainty with the current rate environment. Technology entered April already up 9% year-to-date, and it is good for the health of the overall market to see other sectors outperform. It is surprising to see healthcare underperform given the strength of the healthcare labor market as well as strong earnings. However, all sectors were around -4 to -5% this month, except for the best 3 performers. For a change of perspective, all sectors except for consumer staples (-1.57%) and real estate (-9.05%) are up for the year.

What to Watch in May

Click here to read our reference guide for economic indicators.

05/01 – Manufacturing PMI, Fed Decision and Press Conference
After 16 consecutive readings of declines, the ISM Manufacturing PMI increased to 50.3 in March, beating expectations of 48.4. New orders on both the domestic and export side surprised to the upside. The Federal funds rate is widely expected to stay at 5.5%. After disappointing data on the inflation side, investors will await and evaluate the press conference.

05/03 – ISM SERVICES PMI, Non-Farm Payrolls, Unemployment Rate
The ISM Services PMI fell slightly to 51.4 in March. The forecast for the next reading is 51.8, continuing the strength seen in the services sector. The Non-Farm Payrolls, along with the Unemployment Rate, will provide a good peak into the health of the labor market, which is continuing to defy all expectations. 238,000 jobs are forecasted to be added, and unemployment is forecasted to stay steady at 3.8%. In the last few months, the jobs added were consistently above forecast; it will be interesting to see how the trend develops from here.

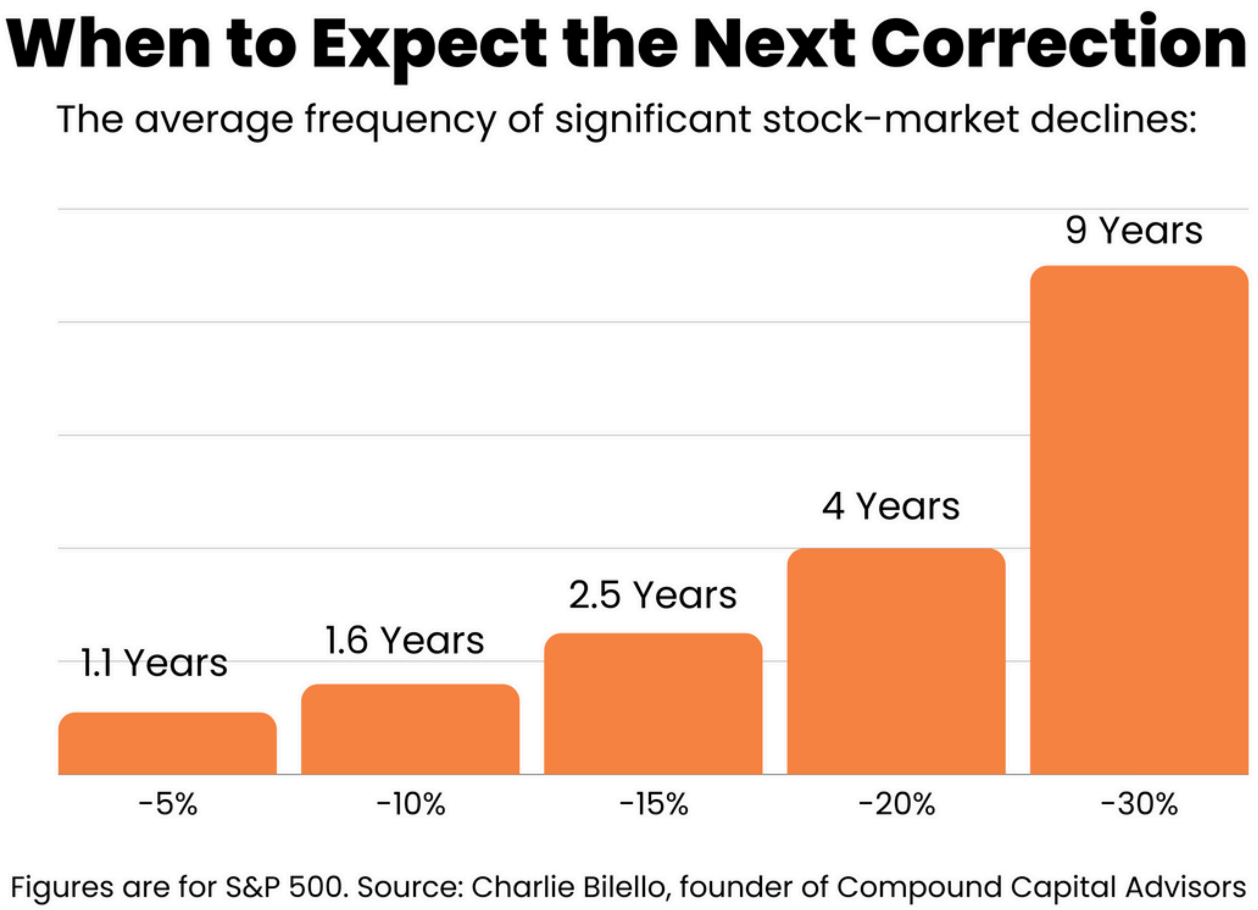
05/10 – Michigan Consumer Sentiment Preliminary
The University of Michigan consumer sentiment for the US was revised to 77.2 for the April preliminary reading. Compared to79.4 in March, which was the highest level since July 2021. It is a little surprising that, despite inflation uncertainty and increasing tensions throughout the month in the Middle East, the forecast calls for a next reading of 78.

05/15 – CPI and Core CP, Retail Sales
The annual CPI went up from 3.2% to 3.5% in March, higher than the forecasts of 3.4%. Core CPI stayed at 3.8%, above forecasts of 3.7%.

Market Wrap

April was a busy month with strong corporate earnings, disinflation risks, and more geopolitical tensions. After a 5-month winning streak, good news only on the corporate earnings front was not enough to satisfy the market. Despite that, there were some positive signs. Last month we shared a graph about the flows only going to the technology sector. In April, healthcare, industrials, and materials beat analyst earnings forecasts by double digits, suggesting that the economic strengths might be spilling to other sectors, broadening the rally. Furthermore, it is not only a US story. The economic strength in Europe, Japan, and India suggests global economic growth.

After a -4.08% month for the S&P 500, we like the following graph as a reminder that pullbacks are normal, and often healthy for the markets.



Sources

Elon Musk visits China as Tesla seeks self-driving technology rollout
Israel planned bigger attack on Iran, but scaled it back to avoid war

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