



## ARGUS ECONOMIC COMMENTARY

April 29, 2024

### Despite April Stumble, Positive Stock-Market Outlook for 2024

Good feelings tend to fade away fast when confronted with discomfiting reality. Following hot jobs and inflation data from March released early in April, investors were confronted with stumbling stocks and surging Treasury yields though mid-month. In addition to pressuring stocks, the rise in yields has boosted the VIX to multi-month highs and caused recalibration of expected Fed policy moves.

Argus and the market are now assuming that the Fed may cut rates just twice in 2024. The Fed, which in March issued a dot plot suggesting three cuts in the second half of 2024, has so far been mum. The May FOMC meeting actually straddles the end of April to the first day of May. All eyes will be on the May FOMC meeting, when the Fed may express a new caution on the pace of its policy moves.

Still, investors remain generally positive that the market will right itself and resume its advance into mid-year, and maybe year-end. The ongoing fundamentals discussed below suggest generally firm footing for stocks in the months and quarters ahead.

#### Market Outlook for 2024

In 2023, the stock market broke out of its 2022 funk on the perception that inflation was in retreat, the Fed would wrap its rate-hiking campaign, and the supply chain would get back to its own “new normal.” All of those things happened more or less, and the market rallied as anticipated. Whereas 2023 opened with inflation and the Fed rate-hiking campaign clearly on the downslope, the outlook for 2024 remains less clear even one quarter into the year.

The lagged effects of higher rates are dragging on consumer and business spending and confidence. Recession appears increasingly unlikely, but remains a risk. The stock market has had a big run, partly because corporate earnings have started to rebound from a year of negative comparisons.

While equity valuations appear attractive, stocks will appear pricey if earnings fail to grow as anticipated.

The major geopolitical event of 2023 – the war between Israel and Hamas – has continued into 2024. The recent deaths of several Iranian commanders could potentially broaden the war into a larger regional conflict. Well after the end of China’s zero-tolerance pandemic lockdown, the world’s second-largest economy has experienced just tepid economic recovery. The war in Ukraine grinds on, hurting economic growth in Eastern Europe. Despite these and other challenges, the global macro-environment appears moderately positive for U.S. stocks.

We expect the U.S. economy to continue expanding in 2024, remaining on a narrow growth path in line with subdued population growth and higher productivity.

Inflation trends were more important than GDP trends for the stock market in 2023, although their impact may fade a bit as 2024 progresses. Prices for shelter and transportation remain elevated, and February saw goods inflation running hotter than services inflation. The Fed is now ahead of the inflation curve: the federal funds rate remained at 5.25%-5.50% as of March 31, 2024, while the core PCE Inflation Index was below 3.0%. With the FF/PCE gap now around the target range of 250 basis points, the Fed may feel increasing confidence in its ability to begin reducing rates. However, the Fed is hinting that it may be more inclined to cut rates two times in 2H24, rather than three times.

Measures of the commercial and industrial economy – including PMIs, durable goods orders, industrial production, and small-business confidence – have moderated from high readings in the pandemic-recovery phase, while remaining at levels consistent with low-level growth. The ISM manu-

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## ECONOMIC & MARKET COMMENTARY (CONT.)

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facturing PMI recently moved into expansionary territory (a reading above 50) for the first time in 16 months.

The outlook for the consumer economy is mixed. Rising wages and full unemployment are not sufficient to offset high prices and high interest rates, which are constraining everything from food purchases to home sales. Consumer sentiment and consumer confidence show signs of splitting along generational and affluence lines, with confidence and sentiment rising in high-income consumers above 55 years old and declining for less-well-paid Millennials.

We look for the dollar to continue to ease in 2024 from the cycle-high levels set in 2022. The greenback increased 2% in 2023, yet still remains below the 2002 cycle high and generally has been trending lower since October 2023.

Energy prices have been volatile, rising in fall 2023 and then declining in winter 2024 before rising again this spring. Although the supply-demand equation appears to favor supply, broad global economic recovery could keep energy prices high while thwarting the Fed's inflation goals. West Texas Intermediate (WTI) crude was at \$85 per barrel at 1Q24-end. Our forecast average price for WTI crude oil in 2024 is \$80, in line with the 2023 average and down from \$95 per barrel in 2022. A wild card for prices would be an broadening in hostilities between Iran and Israel.

The yield curve was inverted for all of 2023, and fixed-income investors expect the Federal Reserve to keep short-term rates at lofty levels for at least the first half of 2024. We expect investors to push shorter-term interest rates lower over time, eventually returning the yield curve to its normal upward slope.

S&P 500 earnings grew 2% in 2023, reflecting economy-wide pressure on net margins that was partly offset by recoveries in Communication Services, Consumer Discretionary, and Technology earnings. Based on sector earnings trends, in November 2023 we raised our 2024 estimate of S&P 500 continuing operations earnings to \$247, from \$245. Our estimate implies 9% growth from 2023. Our EPS forecast for 2025 is for continuing-operations EPS in the mid-\$260s, implying high-single-digit growth.

Following 2.5% GDP growth in 2023, GDP growth is likely to moderate in 2024. Our forecast calls for economic growth of 2.3% in 1Q24, followed by sub-2% growth in the middle quarters of year and 2%-plus growth in 4Q24.. Our forecast for 2025 is also close to 2.0%.

Accelerating stock gains into year-end 2023 and 1Q24 suggest that investors are anticipating the beginning of rate cuts, rather than dreading rate hikes as they had been doing in for more than two years. We expect U.S. stocks to

continue outperforming global stocks, based on risk profiles and growth outlooks, tempered by valuation.

In terms of market segments, we look for growth to continue to lead in 2024. But consistent with the 1Q24 trend, we expect much-improved sector breadth and a lower level of "Big Three" (Communication Services, Technology, Consumer Discretionary) concentration. In June 2023, the S&P 500 at 4,293 entered a new bull market, having risen 20% from its October 2022 low of 3,577. The S&P 500 in 2023 rose 24% to finish the year at around 4,770, and then added a further 10% to finish 1Q24 at 5,254. Despite solid appreciation over the past 16 months, stock valuations improved into year-end 2023 and remained positive in spring 2024, this as inflation and interest rates continued to come down. The April correction has been broad but also most intense in growth sectors -- further improving valuations.

Currently, our stock/bond barometer is signaling that stocks are as close to fair value as they have been since 1Q22. We look for valuation multiples on stocks to widen modestly in 2024, aiding returns in the equity market. Our base case outlook for U.S. markets calls for a more-normal year of S&P 500 returns, in the 8%-12% range. Even though the S&P 500 reached the midpoint of that range as of the end of 1Q24, the outlook remains uncertain in a presidential election year (typically the weakest of the four-year cycle).

A key risk to our outlook is that the Fed may have raised interest rates too far and too fast, and may be too slow to begin reducing rates. That could send corporate earnings tumbling and the U.S. economy into recession. We anticipate that an expanding economy, growing earnings, and declining inflation and interest rates can offset the political uncertainty from the presidential election, resulting in the S&P 500 trading near all-time highs in 2024. Our revised 12-month trading range for the S&P 500 is 4,800-5,600.

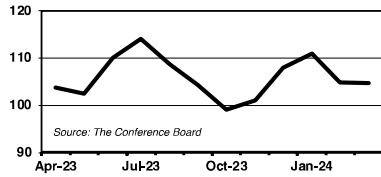
### Conclusion

In broad terms, the 2023 gain in stocks was positive, but it was also too narrow. Three sectors – Communication Services, Technology, and Consumer Discretionary – accounted for all of the 2023 market advance. None of the other eight sectors beat the overall market for 2023. After a worrisome level of AI-driven sector concentration in 2023, much-better breadth in 1Q24 and into early 2Q24 can help extend any gains into coming months and quarters, in our view.

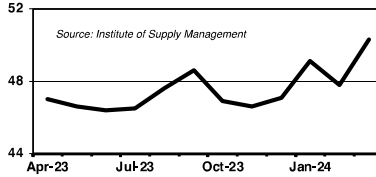
Jim Kelleher, CFA,  
Director of Research

# ECONOMIC TRADING CALENDAR

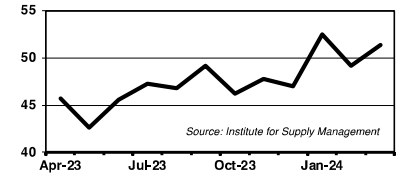
Release: **Consumer Confidence**  
 Date: 4/30/2024  
 Month: April  
 Previous Report: 104.7  
 Argus Estimate: 104.0  
 Street Estimate: NA



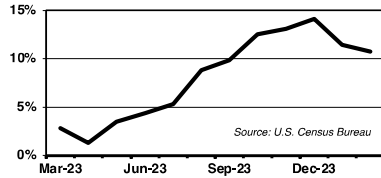
Release: **ISM Manufacturing**  
 Date: 5/1/2024  
 Month: April  
 Previous Report: 50.3  
 Argus Estimate: 51.0  
 Street Estimate: NA



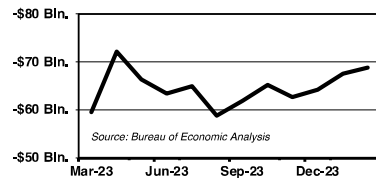
Release: **ISM New Orders**  
 Date: 5/1/2024  
 Month: April  
 Previous Report: 51.4  
 Argus Estimate: 51.5  
 Street Estimate: NA



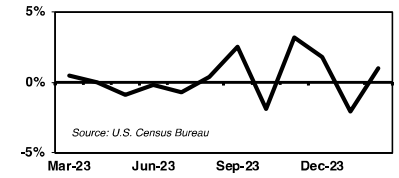
Release: **Construction Spending**  
 Date: 5/1/2024  
 Month: March  
 Previous Report: 10.7%  
 Argus Estimate: 10.4%  
 Street Estimate: NA



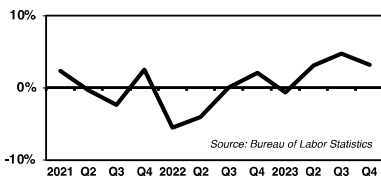
Release: **Trade Balance**  
 Date: 5/2/2024  
 Month: March  
 Previous Report: -\$68.9 Bln.  
 Argus Estimate: -\$70.0 Bln.  
 Street Estimate: NA



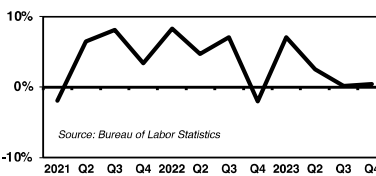
Release: **Factory Orders**  
 Date: 5/2/2024  
 Month: March  
 Previous Report: 1.0%  
 Argus Estimate: 0.8%  
 Street Estimate: NA



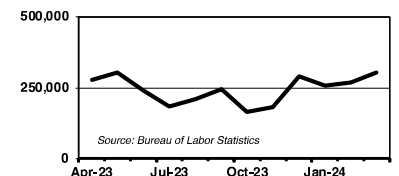
Release: **Nonfarm Productivity**  
 Date: 5/2/2024  
 Month: 1Q  
 Previous Report: 3.2%  
 Argus Estimate: 3.5%  
 Street Estimate: NA



Release: **Unit Labor Costs**  
 Date: 5/2/2024  
 Month: 1Q  
 Previous Report: 0.4%  
 Argus Estimate: 0.3%  
 Street Estimate: NA

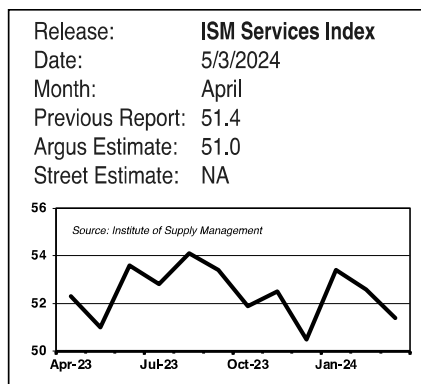
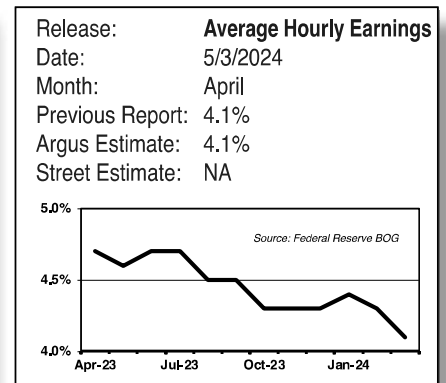
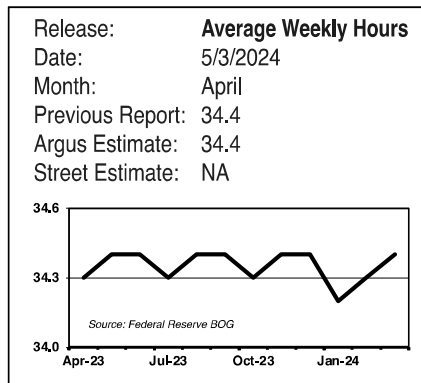
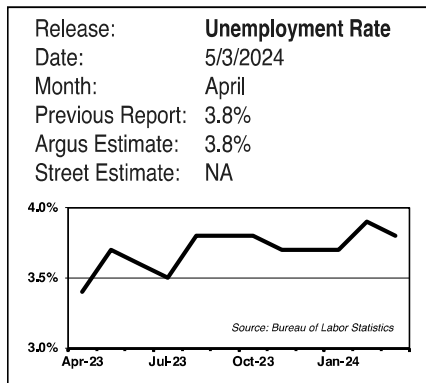


Release: **Nonfarm Payrolls**  
 Date: 5/3/2024  
 Month: April  
 Previous Report: 303000  
 Argus Estimate: 200000  
 Street Estimate: NA



*Previous Week's Releases and Next Week's Releases on next page.*

## ECONOMIC TRADING CALENDAR (CONT.)



### Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
23-Apr	New Home Sales	March	662 K	672 K	NA	NA
24-Apr	Durable Goods Orders	March	4.5%	4.8%	NA	NA
25-Apr	GDP Annualized QoQ	1Q Advance	3.4%	2.4%	NA	NA
	GDP Price Index	1Q Advance	1.6%	2.8%	NA	NA
26-Apr	PCE Deflator	March	2.5%	2.7%	NA	NA
	PCE Core Deflator	March	2.8%	2.8%	NA	NA
	Personal Income	March	4.6%	4.7%	NA	NA
	Personal Spending	March	4.9%	5.0%	NA	NA

### Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
6-May	Total Vehicle Sales	April	15.49 mln.	NA	NA	NA
8-May	Wholesale Inventories	March	-1.5%	NA	NA	NA
10-May	U. of Michigan Sentiment	May	77.9	NA	NA	NA

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