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ARGUS ECONOMIC COMMENTARY

June 3, 2024

As Summer Looms, Will the Market Pause?

The stock market in May has shrugged off a difficult April. But even with the strong "buy the dip" reversal, investors are anything but confident in the market's advance, given some shaky economic underpinnings. Inflation continues to weigh not just on consumers' thinking but more than ever on their large-ticket and discretionary purchases. Both of the most recent quarterly GDP and nonfarm payrolls reports represented a step down from prior readings.

Cooling in the economy provided the Fed cover for its first rate cut of the current cycle. Yet the language from Fed officials seems to signal that the central bank is in no hurry to begin cutting rates. The election, and not just the presidential election, is moving into its mean season; the fraught and angry partisanship can weigh on consumer behavior and investor confidence.

Despite these and other challenges, the bull has pressed on. Historically, bull markets have successfully climbed walls of worry, many more formidable than the current one. But investors need to remain confident this bull still has legs.

The Market as of End of May

The market would not be up if the outlook was all gloom. Corporate earnings continue to outperform expectations, which along with declining rates of inflation is preventing a rising market from appearing overvalued. GDP growth was subpar in 1Q24, but it was positive; and imports and the change in private inventories may have distorted the real growth in the economy. Although Fed officials are playing it close to the vest, most investors expect the next move in fiscal policy – whether in 2024 or 2025 – will be a reduction in the fed funds rate.

As of the Friday before Memorial Day weekend, the S&P 500 was up 11.8% year-to-date on a total return basis. At a close of 5,305 as of 5/24/24, the S&P 500 was 0.3% below its all-time closing high of 5,321. The Nasdaq, which has slightly lagged the S&P 500 for almost all of 2024, has finally moved ahead and was up 13.1% as of 5/24/24; the Nasdaq hit an all-time closing high of 16,921. The DJIA is up a lesser 4.4% on a total return basis for 2024, hurt by big bank stocks, technology also-rans such as Intel, and outliers such as Boeing. The Dow at 39,070 as of 5/24/24 is about 2.5% below its all-time high above 40,000.

At the sector level, the advance in 2024 is broad-based and thus much healthier than the tightly concentrated market in 2023. Again as of 5/24/24, Communication Services was up 21.6% year to date, making it the only 20%-plus gainer. A year earlier, three sectors were up over 20% and well out in front of the broad market while the other eight sectors were languishing.

In second place is Information Technology, up 18%; Technology has used the May bounce-back to usurp the silver medal from now third-place Utilities. This traditional defensive sector is rising even though the Fed's timeline for its first rate cut keeps getting pushed back. Investors are also betting that Utilities will benefit from growth in power-hungry data centers as demand for generative AI kicks into a higher gear.

After the top three, another four sectors – Financial, Energy, Industrials, and Consumer Staples – are up in the 9%-11% range year to date, approximately tracking the broad market. Materials and Healthcare are both up 6%-7%.

Consumer Discretionary, one of 2023's winners, is barely above breakeven in 2024. Although this sector represents less than 10% of the market, its lagging performance should not be ignored. If most consumers are unable to make big-ticket and discretionary purchases, all aspects of the industrial and commercial economy will be impacted to some degree.

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Real Estate is the only negative sector in 2024. This sector is punching above its weight, and not in a good way. The stagnation in the housing market keeps boomers locked in too-big homes, distorts prices for the homes that are available, and keep millennials and other generations locked in the renter cycle. Underperformance in these two bottom sectors signals ongoing pressures in the economy that are difficult to resolve in a high interest rate environment.

The Market Does Not Like Those Hazy, Lazy Days of Summer

The U.S. does not exist in a vacuum, and solid trends in global stocks are a positive for U.S. investors. Much of that strength is concentrated in mature economy markets such as the Eurozone, which includes large trading partners. China too has turned around, in what may be a sign that China's economic struggles are resolving; or it may be another head-fake.

For U.S. investors, the warm weather has historically brought a meaningful slow-down in the stock market. In any year, stock-market gains tend to be concentrated in the early month and the later months. That often leaves the June-September period dead in the water, or with feeble gains at best.

May itself has been a good stock month, averaging capital appreciation of 0.88% on the S&P 500 for all years from 1980 through 2023. There are of course outliers either way, including a 6.6% decline in 2019 and a 4.5% gain the next year in 2020. While May has been generally good, June has averaged just a 0.25% gain over that 1980-2023 period.

July has been among the strongest months with a 1.36% average gain, but it is followed by August (down 0.02%) and September (down 1.07%) over the 1980-2023 period. For all years in the survey period, June through September has averaged total capital appreciation of just 1.1% on the S&P 500. Performance since the millennial turn in 2000 is actually worse with a four-month gain of just 0.1%. Just since 2009 as the economy came out of the great recession, summer has averaged better-than-average capital appreciation of 2.7%.

Conclusion

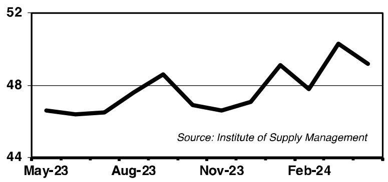
Just a few days after Memorial Day, it is a bit early to say goodbye to "Wall Street summer," which stretches between the two holidays with no regard for the calendar summer. But when we do say goodbye to summer, the Fed either will have or will not have made its first rate cut. And regardless of the Fed, the election will be heating to fever pitch.

Stock markets that do well in the January-May period tend to end with solid full-year wins on the S&P 500. But investors are unlikely to feel comfortable with that statistical outcome until inflation breaks its stalemate and moves toward the Fed's 2% target, and the Fed responds with its first rate cut in the cycle.

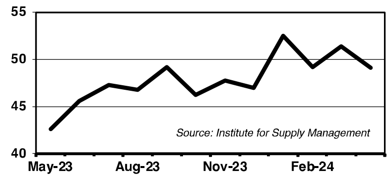
Jim Kelleher, CFA,
Director of Research

ECONOMIC TRADING CALENDAR

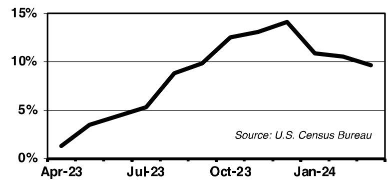
Release: **ISM Manufacturing**
Date: 6/3/2024
Month: May
Previous Report: 49.2
Argus Estimate: 50.1
Street Estimate: 49.7



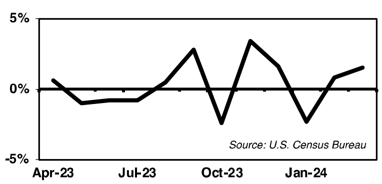
Release: **ISM New Orders**
Date: 6/3/2024
Month: May
Previous Report: 49.1
Argus Estimate: 50.1
Street Estimate: NA



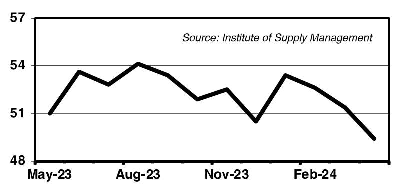
Release: **Construction Spending**
Date: 6/3/2024
Month: April
Previous Report: 9.6%
Argus Estimate: 9.1%
Street Estimate: NA



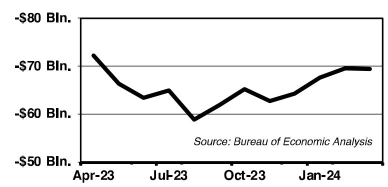
Release: **Factory Orders**
Date: 6/4/2024
Month: April
Previous Report: 1.5%
Argus Estimate: 1.3%
Street Estimate: NA



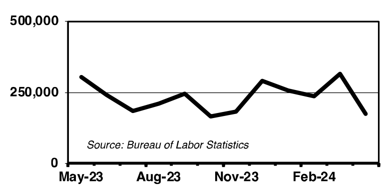
Release: **ISM Services Index**
Date: 6/5/2024
Month: May
Previous Report: 49.4
Argus Estimate: 50.1
Street Estimate: 50.7



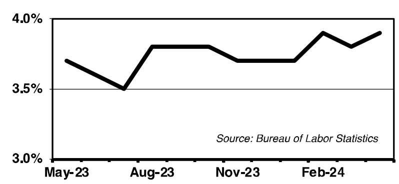
Release: **Trade Balance**
Date: 6/6/2024
Month: April
Previous Report: -$69.4 Bln.
Argus Estimate: -$70.0 Bln.
Street Estimate: -$69.4 Bln.



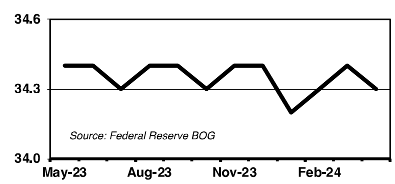
Release: **Nonfarm Payrolls**
Date: 6/7/2024
Month: May
Previous Report: 175000
Argus Estimate: 168000
Street Estimate: 185000



Release: **Unemployment Rate**
Date: 6/7/2024
Month: May
Previous Report: 3.9%
Argus Estimate: 3.9%
Street Estimate: 3.9%

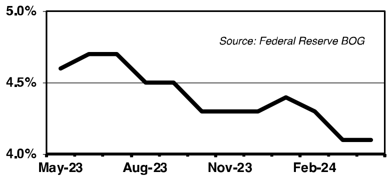


Release: **Average Weekly Hours**
Date: 6/7/2024
Month: May
Previous Report: 34.3
Argus Estimate: 34.3
Street Estimate: 34.3

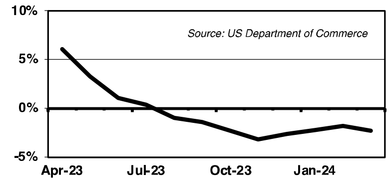


Previous Week's Releases and Next Week's Releases on next page.

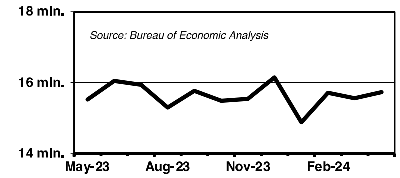
Release: **Average Hourly Earnings**
Date: 6/7/2024
Month: May
Previous Report: 3.9%
Argus Estimate: 3.9%
Street Estimate: NA



Release: **Wholesale Inventories**
Date: 6/7/2024
Month: April
Previous Report: -2.3%
Argus Estimate: -1.9%
Street Estimate: NA



Release: **Total Vehicle Sales**
Date: 6/7/2024
Month: May
Previous Report: 15.74 mln.
Argus Estimate: 15.85 mln.
Street Estimate: NA



Previous Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
28-May	Consumer Confidence	May	97.0	88.0	96.5	NA
30-May	GDP Annualized QoQ	1Q "2nd est."	1.6%	1.6%	1.2%	NA
	GDP Price Index	1Q "2nd est."	3.1%	3.1%	3.1%	NA
31-May	PCE Deflator	April	2.7%	2.7%	2.7%	NA
	PCE Core Deflator	April	2.8%	2.7%	2.8%	NA
	Personal Income	April	4.7%	4.5%	NA	NA
	Personal Spending	April	5.8%	5.7%	NA	NA

Next Week's Releases

Date	Release	Month	Previous Report	Argus Estimate	Street Estimate	Actual
12-Jun	Consumer Price Index	May	3.4%	NA	NA	NA
	CPI ex-Food & Energy	May	3.6%	NA	NA	NA
13-Jun	PPI Final Demand	May	2.2%	NA	NA	NA
	PPI ex-Food & Energy	May	2.4%	NA	NA	NA
14-Jun	Import Price Index	May	1.1%	NA	NA	NA
	U. of Michigan Sentiment	June	69.1	NA	NA	NA

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