Summary

Economic news for the week was dominated by inflation, for which consumer prices disappointed by remaining sticky on the services side, while producer price inflation came in far cooler. Consumer sentiment fell back a bit.

Global equities fell back with the negative influences of higher U.S. inflation and increased risk of conflict in the Middle East. Bond prices also declined as yields rose, along with the inflation report and assumed impact on the Fed. Commodities were mixed, with energy down and precious metals up.

Economic Notes

(-) The **consumer price index** rose 0.4% on both a headline and core basis for March, equaling the prior month's rise but each a tenth faster than the expected 0.3%. Headline was led by energy costs rising over a percent (mainly gasoline), while food costs only rose 0.1%. The core portion was again led by strength in shelter (rent and owners' equivalent rent), which has been one of the key drivers of prices since the pandemic, as well as persistence in areas like car insurance, car repair, hospital services, apparel, and pets. On the easing side, car prices fell, mostly on the used car side (by over -1%), as did airline fares.

On a year-over-year basis, CPI is now up 3.5% (from 3.2%) and 3.8% (unchanged) for headline and core, respectively. Energy and food each rose just over 2% for the year, so were not contributors to the broader robustness in prices. Shelter gains of nearly 6% as well as transportation services up nearly 11% continued to act as the primary drivers of core inflation, which has indeed remained 'stickier' than many have hoped for by now. Markets reacted quite negatively mid-week when CPI was released, as this key watch item for the Fed was assumed (via Fed funds futures markets) to lower the odds of 2-4 rate cuts this year to more like 1-2, and perhaps delaying the start from June until the fall. In fact, the CME Fed funds futures market odds of a June cut fell from 50% to 20% after the report. This carried over to boost longer-term bond yields as well, pointing to the power of a single economic metric when focused on enough.

(0/+) The **producer price index** rose 0.2% in March on a headline basis, a tenth lower than the 0.3% expected, and a third of the pace of the prior month. Core PPI, ex-food and energy, also rose 0.2%, in keeping with expectations. For the headline figure, energy costs falling nearly -2% was the primary driver, while food costs rose nearly a percent. Within core, transportation costs rising over 2% on the month appeared to drive the bulk of the underlying change. Over the trailing 12 months, PPI was up 2.1% and 2.4% on a headline and core basis, respectively. By product, final demand goods prices rose 0.8%, while services prices gained 2.8%—a gap that explains most of the differential noted in consumer prices as well. Interestingly, government-purchased goods saw the highest degree of inflation over the past year (generally over 4-5%), well over that of other categories. This report was taken somewhat positively, at least insofar as it didn't exacerbate any further bad inflation news.

(0) **Import prices** rose by 0.4% for March, exceeding expectations by a tenth. This was entirely due to higher energy prices, as removing petroleum from the basket took this down to a 0.1% monthly increase. Other segments included price gains for industrial supplies and food/beverage, each up 2%, while consumer goods ex-autos and capital goods prices each fell back. Year-over-year, overall import prices are up by the same 0.4%—the first yearly increase in over a year—while nonfuel import prices were little changed overall.

(-) The preliminary April **Univ. of Michigan index of consumer sentiment** report experienced a fall of -1.5 points to 77.9, a bit further than the 79.0 median estimate. While future expectations fell only slightly, assessments of current conditions declined by over -3 points. Inflation expectations for the coming year rose by 0.2% to 3.1%, as did expectations for the next 5-10 years to 3.0%—each defying expectations for no net change. Commentary about the overall picture noted that the mood about the economy, personal financial situations, and job markets was little changed, but has stabilized from last year; however, consumers continue to

view the coming 2024 election as a wildcard with potentially strong impact on the economy (contrary to the little change historically). The sourer mood about inflation perhaps reflects media coverage about its stickiness as well as recent rises in gasoline prices, which tend to be on consumer minds more than other inputs. Interestingly, the survey group is finally modernizing from phone-based interviews to a web-based approach this spring, which is assumed by some to result in more pessimistic responses, along with greater anonymity.

(0) **Initial jobless claims** for the Apr. 6 ending week fell by -11k to 211k, below the 215k median forecast. On the other hand, continuing claims for the Mar. 30 week rose by 28k to 1.817 mil., reversing a sharp decline from the prior week, slightly exceeding the median forecast of 1.811 mil. Claims were mixed by state, with the largest states driving the results, as would be considered a normal week, not plagued by weather, layoffs, etc.

(0) The **FOMC minutes** from the March meeting are dated by now, especially in light of more recent inflation data, but still provide a backdrop for members' thinking, particularly in the lead-up to anticipated rate cuts. In that vein, 'almost all' participants felt it would be appropriate to move to a 'less restrictive' stance this year at some point—albeit vague. Timing was open, though, as recent inflation data 'had not increased their confidence.' The FOMC acknowledged the problems in recent inflation firmness, realizing the process would be lumpy (although this was before last week's report, which stayed similarly firm). On the positive side, strength was noted in both economic growth and labor markets.

The Fed's balance sheet was also top of mind, insofar as the in-progress quantitative tightening (QT) was concerned, which allows their portfolio of U.S. Treasury and agency mortgage-backed bonds to drain from the pool. 'Participants generally favored reducing the monthly pace of runoff by roughly half from the recent overall pace,' and adjusting the cap on Treasuries to slow the pace of runoff. (This also implies mortgages may not be included in the adjustment, keeping the drain of those bonds intact, and reiterating the Fed's desire to move these off the balance sheet in favor of a Treasury-only portfolio.) This slowing of tightening effects would be in line with allowing for easing this year, as the tightening effect allows long-term yields to float more freely higher, which runs in contrast to an updated policy desire for lower rates.

Market Notes

Period ending 4/12/2024	**1 Week %**	**YTD %**
DJIA	-2.36	1.32
S&P 500	-1.52	7.86
NASDAQ	-0.45	7.97
Russell 2000	-2.91	-0.80
MSCI-EAFE	-1.12	3.20
MSCI-EM	-0.34	2.30
Bloomberg U.S. Aggregate	-0.70	-2.52

U.S. Treasury Yields	**3 Mo.**	**2 Yr.**	**5 Yr.**	**10 Yr.**	**30 Yr.**
12/31/2023	5.40	4.23	3.84	3.88	4.03
4/5/2024	5.43	4.73	4.38	4.39	4.54
4/12/2024	5.45	4.88	4.54	4.50	4.61

U.S. stocks suffered a down week largely due to persistent inflation pressures, as well as some escalating fears of conflict in the Middle East, with reports of a planned retaliatory Iranian attack on Israel (which occurred over the weekend, albeit being mostly neutralized). The drawdown on Wed. of over a percent was solely led by the CPI inflation number coming in 'hotter' than expected, disappointing markets that saw this as a sign that rate cuts might not begin in June as is the current base case, or that there might be fewer cuts this year (three being the base case). Friday's poor showing was tied to weakness for some big banks (due to lower interest margins, particularly coupled with negative comments from JPMorgan's management, particularly about inflation) that

started off the Q1 reporting season. By sector, financials fared the worst, down nearly -4%, followed by declines of around -3% in materials and health care. Technology fared best, only suffering a minimal decline. Real estate also lost nearly -3% for the week, due to rising yields.

Speaking of earnings, the Q1 reporting season has begun, with FactSet estimating a 0.9% growth rate for the S&P 500 on a year-over-year basis, down from the 3.4% estimate a few weeks ago. If this seems a bit low, it's due to the timing of the Q1-to-Q1 comparative, with an assumption this growth figure will rise over the next few weeks. Sector leadership is expected from utilities (interestingly), technology, and communications services, with estimates over 19% year-over-year, while energy, materials, and health care are expected to bring up the rear with declines exceeding -25%. For the S&P as a whole, full-year 2024 and 2025 earnings growth estimates are still robust at 10% and 14%, respectively, which also reflects the current soft landing narrative.

Foreign stocks slightly underperformed U.S. stocks, due to the headwind of a dramatically stronger U.S. dollar. The U.K. and Japan suffered lesser declines than Europe and emerging markets. The ECB unsurprisingly decided to keep key interest rates unchanged but noted that they could be close to the cutting point (perhaps June, before the U.S.), while comments from the Bank of England were a bit more hawkish about possibilities for a near-term cut, as GDP growth improved slightly (although just a few tenths above zero).

Bond prices pulled back as the sticky inflation print pushed yields higher across most maturities, with U.S. Treasuries and corporates faring similarly. Floating rate bank loans performed slightly better, with minimal change for the week. The stronger dollar worked against foreign bonds, which lost significant ground in both developed and emerging markets.

Commodities were again mixed for the week, with gains in precious metals of 3%, while energy fell by several percent. Crude oil prices declined -2% last week to $85/barrel, with rising inventories and the IEA's cut to 2024 demand forecasts appearing to outweigh the Iran-Israel concerns. Gold prices continued to show strength along with elevated geopolitical risk, with retail investors increasingly jumping on board, including small bullion bars being offered by a popular warehouse club retail store.

Have a good week.

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Sources: FocusPoint Solutions, American Association for Individual Investors (AAII), Associated Press, Barclays Capital, Bloomberg, Citigroup, Deutsche Bank, FactSet, Financial Times, First Trust, Goldman Sachs, Invesco, JPMorgan Asset Management, Marketfield Asset Management, Morgan Stanley, MSCI, Morningstar, Northern Trust, PIMCO, Standard & Poor's, StockCharts.com, The Conference Board, Thomson Reuters, T. Rowe Price, Univ. of Michigan, U.S. Bureau of Economic Analysis, U.S. Federal Reserve, Wall Street Journal, The Washington Post. Index performance is shown as total return, which includes dividends. Performance for the MSCI-EAFE and MSCI-EM indexes is quoted in U.S. Dollar investor terms.

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Notes key: (+) positive/encouraging development, (0) neutral/inconclusive/no net effect, (-) negative/discouraging development.