U.S. Market Commentary

The Markets

Stock market optimism continued in March but on a broader level, with previously lagging segments of the market such as small and mid-caps participating in the rally. Bond returns were also positive in March but remain negative year-to-date.

Market Indices	March 2024	Year-to-Date
Dow Jones Industrial Average	2.1%	5.6%
S&P 500 Index	3.1%	10.2%
NASDAQ Composite	1.8%	9.1%
MSCI World Index	3.0%	8.5%
Bloomberg US Aggregate Bond Index	0.9%	-0.8%
Bloomberg Global Aggregate Bond Index	0.6%	-2.1%

The Economy

The US economy showed a few signs deceleration in March but the overall positive trajectory appears intact. Preliminary estimates for Q1 GDP show the economy expanding at an annualized pace of 1.6 percent, less than half the rate of 3.4 percent confirmed in the prior quarter. While the manufacturing sector has looked weak for an extended period, March bucked the trend of contraction as the ISM Purchasing Managers Index (PMI) rose to 50.3 from 47.8 in the prior month. Considering that a reading for this PMI above 50.0 represents a general expansion of the sector (versus a contraction if the figure falls below 50.0), it is the first report to suggest an expansion of the sector, albeit a slight one, in eighteen months. Personal Spending and Core Retail Sales also increased over the prior month with growth of 0.8 percent and 1.1 percent, respectively.

Employment reports for March were mixed, as the general cooling in the labor market continues. Nonfarm payrolls showed the US economy adding a revised 315k new jobs, while the unemployment rate also fell to 3.8 percent from 3.9 percent in February. On the other hand, the number of available jobs contracted by 3.0 percent in both March and February, while average hourly earnings fell to 4.1 percent year-over-year from 4.3 percent.

As for inflation, energy and shelter costs continue to push prices higher for consumers. The Consumer Price Index (CPI) rose from 3.2 percent year-over-year to 3.5 percent in the prior month. The Core CPI, which strips out volatile components such as food and energy, was flat at 3.8 percent. The deceleration in inflation has eased, as the Core CPI has hardly moved since the 2023 year-end reading of 3.9 percent. While producer prices have increased at a slower pace than consumer prices, similar trends were observed in March. The Producer Price Index (PPI) increased to 2.1 percent year-over-year from a revised 1.6 percent, while the Core PPI increased to 2.4 percent from a revised 2.1 percent. The persistence in inflation readings continues to suggest that the US Federal Reserve will hold rates at elevated levels for some time and that any rate cuts in the near term may be mild.

Lastly, the housing market remains lethargic as most resurgences in residential activity appear short-lived. Housing starts and building permits both declined, falling by 15.4 percent and 2.6 percent, respectively, from the previous month and completely reversing the gains observed in February. Sales of existing homes also contracted, falling by 4.3 percent to an annualized 4.19 million following an increase of 9.5 percent in the prior month. On the other hand, sales of new homes jumped by 8.8 percent to an annualized 693k.