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April 2024

## The Heartland Group at Morgan Stanley Investment Insights

### *Momentum Killer*

On the last day of March, the S&P 500 hit an intra-day high of 5264, but this demarcation point is where momentum has changed. The Markets are still up for the year, but since April 1<sup>st</sup> ( thanks April fools) The S&P 500 is down 3.6% this month and the tech heavy NASDAQ is down 2.9%<sup>1</sup> As I have said in prior newsletters, we suspected momentum would continue to the 5200-5400 range, and since we hit those levels, we have stalled and dipped back below 5200 as of writing this, the S&P 500 currently sits at 5051.<sup>1</sup>

The Market has reacted negatively the past 2 weeks, the Dow Jones Avg is down 6 days in a row and today it was barley up.<sup>1</sup> In my opinion, what has caused this momentum killer is the Fed rate cut expectations have begun to wane. In the beginning of the year investors were expecting 3 or 4. 25 bps rate cuts by year end.<sup>2</sup> But with recent inflation data reported, specifically on April 10th the latest Consumer Price Index (CPI) report showed a .4% increase, when investors were expecting a .3% for the month of March.<sup>5</sup>

After the recent reports, the CME Fed tracker is predicting only one 25 bps cut by Sept and maybe 2 by December, which is less than the expected 3 or 4 rate cuts by year end 2024 many were predicting, including Morgan Stanley.<sup>4</sup> In fact, Morgan Stanley economists are still predicting 3 rate cuts this year, starting in July<sup>4</sup>. However, our team has always been in the camp that we will have higher for longer rates than what is expected.

On a positive note, the Atlanta Fed's Wage Growth Tracker ticked down to 4.7% in March from 5%<sup>5</sup>. The seasonally adjusted U-4 unemployment number, that is widely followed, was reported at 4% this month, which is where it has hovered for the last 12 months. Albeit the U-6 total unemployed number has ticked up ever so slightly over the last year to 7.3%<sup>6</sup> which is actually good. The fed is trying to stop inflation without sending us into a recession. And it's hard to argue that we are going into a recession with Unemployment at 4%. This is fairly good news, but data like this can sometimes be chunky.

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This may sound familiar to our February newsletter when a higher-than-expected CPI number caused a bit of volatility. What's different this time is that we are a few more months down the road and inflation data has been stickier than expected. Couple that with P/E multiples being stretched at about 20.4 and moving higher than that 5200-5400 range becomes harder<sup>7</sup>.

This week we are kicking off earnings season and reports so far look good, as expected. However, I think much of the expected good 1<sup>st</sup> qtr earnings, and hopeful fed rate cuts is why the market has done so well the last 3 months (currently S&P 500 up y-t-d5.9%<sup>1</sup>).

We think that unless earnings dramatically surprise to the upside, or inflation data improves, it's likely we trade sideways for a while, as data needs to catch up with the markets earlier pre-emptive move.

In my option this markets volatility suggests investors are starting to price less rate cuts from the Fed. Bottom line: I believe the Feds restrictive high policy rates are working on fighting inflation, just slower than most investors were predicting.

<sup>1</sup> Dow Jones/ Reuters news and Thompson One

<sup>2</sup> [CME FedWatch Tool - CME Group](#)

<sup>3</sup> [CPI Inflation March 2024: Consumer prices rose 3.5% from a year ago in March \(cnbc.com\)](#)

<sup>4</sup> [MS Global Macro Forum Fed Policy](#)

<sup>5</sup> [Wage Growth Tracker - Federal Reserve Bank of Atlanta \(atlantafed.org\)](#)

<sup>6</sup> [BOL Stats Labor Measurements 2024 Q01 Results \(bls.gov\)](#)

<sup>7</sup> [GIC Weekly Warmup Rates Matter \(ms.com\)](#)

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