Morgan Stanley

Tuesday, April 16, 2024

April 2024

The Heartland Group at Morgan Stanley Investment Insights

Momentum Killer

Shawn M. Reed, CPM®, CFP®
CERTIFIED FINANCIAL PLANNER™ practitioner
Certified Portfolio Manager®
Portfolio Management Director
First Vice President
Financial Advisor
shawn.m.reed@morganstanley.com
+1 (312) 827-6712

Richard Colbert
Senior Vice President, Wealth Advisor
Richard.Colbert@morganstanley.com
+1 (312) 827-6529

Cristina Chiper
Vice President
Business Development Associate
Cristina.Chiper@morganstanley.com
+1 (312) 443-6245

Micah Clark
Registered Client Service Associate
Micah.Clark@morganstanley.com
+1 (312) 419-3460

James B. Johnson
Client Service Associate
james.b.johnson@morganstanley.com
+1 (312) 443-6063

Derek Cushman
Registered Client Service Associate
derek.cushman@morganstanley.com
+1 (312) 827-6873

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 1st (thanks April fools) The S&P 500 is down 3.6% this month and the tech heavy NASDAQ is down 2.9%[1] 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. [1]
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.[1] 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.[2] 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.[5]

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.[4] In fact, Morgan Stanley economists are still predicting 3 rate cuts this year, starting in July[4]. 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%[5]. 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%[6] 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.

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[7].
This week we are kicking off earnings season and reports so far look good, as expected. However, I think much of the expected good 1st 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%[1]).
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.
.

1 Dow Jones/ Reuters news and Thompson One
2 CME FedWatch Tool - CME Group
3 CPI inflation March 2024: Consumer prices rose 3.5% from a year ago in March (cnbc.com)
4 MS Global Macro Forum Fed Policy
5 Wage Growth Tracker - Federal Reserve Bank of Atlanta (atlantafed.org)
6 BOL Stats Labor Measurements 2024 Q01 Results (bls.gov)
7 GIC Weekly Warmup Rates Matter (ms.com)

The greatest compliment one can give us is a referral to their friends and family.
As always, please call or email us with any questions or concerns about the management of your family's wealth.

Shawn M. Reed, CPM®, CFP®
CERTIFIED FINANCIAL PLANNER™ practitioner
Certified Portfolio Manager®
Portfolio Management Director
First Vice President
Financial Advisor
Morgan Stanley | Wealth Management
Willis Tower | 233 S. Wacker Dr. | Suite 8600 |
Chicago, IL 60606
shawn.m.reed@morganstanley.com
+1 (312) 827-6712

Richard Colbert
Senior Vice President,
Wealth Advisor, Financial Advisor
Morgan Stanley | Wealth Management
Willis Tower | 233 S. Wacker Dr. | Suite 8600 |
Chicago, IL 60606
Richard.Colbert@morganstanley.com
+1 (312) 827-6529

1 Dow Jones/ Reuters news and Thompson One
2 CME FedWatch Tool - CME Group
3 CPI inflation March 2024: Consumer prices rose 3.5% from a year ago in March (cnbc.com)
4 MS Global Macro Forum Fed Policy
5 Wage Growth Tracker - Federal Reserve Bank of Atlanta (atlantafed.org)
6 BOL Stats Labor Measurements 2024 Q01 Results (bls.gov)
7 GIC Weekly Warmup Rates Matter (ms.com)