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The Heartland Group at Morgan Stanley Investment Insights

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Still Waiting…

The team has had a lot going on this month, many exciting things to share on a personal note. Rich Colbert's son (Blake 16) made national Honor society, Shawn Reed's son (Harrison 6) started Taekwondo and had his 1st grade annual spring sing, and his other son, Clark turned 5 years old and started T-Ball. In addition, Shawn's mother has been in rehab recovering from a long hospital stay, but is returning home this week, a great Mother's Day gift. I would say the team has had more excitement than the stock market, to start May off.

Since our last newsletter, the market came off a High of 5264 at the end of May and was around 5051. I thought we may trade sideways for a while as investors digested mixed signals of higher rates for longer from the Fed, and good earnings numbers from companies this 1st Quarter.[1] And that's exactly what we have had. S&P moved about 5% lower to 4953 on an intraday low, and moved back up to 5222, where we sit today, still about 40 points below are all-time high made in March.[2]

As stated in the April newsletter, we expected good earnings results for the S&P500, and as of May 10th, 92% of S&P500 Companies have reported. 78% of those have reported a positive EPS surprise and 59% of them have reported a positive revenue surprise.[3]

Those good earnings numbers and interest rate expectations this last 30 days, are being digested from investors and we have seen the market rally back from the lows. Although we have had significant movement in the markets, we are nearly in the same place we were 60 days ago.

So what is next on the Horizon? We think investors still need to keep an eye on the Fed and inflation data. With the CPI numbers that came in today were slightly cooler than last month .3% for April, lower by .1%.[4] Morgan Stanley now predicts a core PCE estimates are .247% for April, vs .32% for March[5]. We still have a few months to go before the Fed will likely start lowering rates but continue to head in the right direction.

The CME Fed tracker still has higher odds of only one 25 bps cut by Sept and maybe 2 by December, although it is interesting to note that the probability odds are more likely they move even later than in the year than what was thought a month ago.[6] What that means is the markets are realizing that inflation is still much sticker than was expected and investors are reluctant to recognize the truth that the Fed isn't cutting rates as fast as they wish.

Unemployment crept up a bit for the month of April, U-4 coming in at 4.1% and the u-6 number, which I like to follow for a truer representation of the unemployed is at 7.4% both up .1% since last month. [7]

As I said last month, there are mixed signals of a slowing economy but good profits from companies, which is long term bullish for equites. We want the inflation numbers to slow, but not so fast we go into a recession. The Fed, in my opinion has done a fairly good job of walking the tight rope…for now.

Bottom line is the Fed is not in a hurry to cut interest rates, inflation has not reached their target of 2% yet, and the economy is ok. I don't believe a Fed cut is coming until after the summer and perhaps Sept at their earliest, with maybe one more cut in December. With interest rates where they

1 The Heartland Group April 2024 Newletter
2 Dow Jones/ Reuters news and Thompson One
3 Factset EPS Beats
4 MS-CPI Data Imply 0.25% Core PCE in April
5 Consumer Price Index Summary - 2024 M04 Results (bls.gov)
6 CME FedWatch Tool - CME Group
7 BOL Stats Labor Measurements 2024 Q01 Results (bls.gov)

are, investors should keep a balanced approach regarding stocks and bonds. Fixed income is still paying well, and even though fixed income's total return has not been as profitable as the stock market, nor is it expected to be, however the volatility in bonds is less, and they still make sense on a risk adjusted basis.

We are still bullish on the stock market for now, and still believe that 5200-5400 range on the S&P 500 will be hard to break thru, and we likely trade in that range going forward or slightly below it We are also loosely bullish on the bond market. We recommend taking some out of that money market/cash and moving it into longer duration bonds in a barbell approach, while also looking at equites with a high quality and large cap bias.

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.

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For index, indicator and survey definitions referenced in this content please visit the following:
https://www.morganstanley.com/wealth-investmentsolutions/wmir-definitions
An investment cannot be made directly in a market index.

Technical analysis is the study of past price and volume trends of a security in an attempt to predict the security's future price and volume trends. Its limitations include but are not limited to: the lack of fundamental analysis of a security's financial condition, lack of analysis of macro-economic trend forecasts, the bias of the technician's view and the possibility that past participants were not entirely rational in their past purchases or sales of the security being analyzed. Investors using technical analysis should consider these limitations prior to making an investment decision.
The value of fixed income securities will fluctuate and, upon a sale, may be worth more or less than their original cost or maturity value. Bonds are subject to interest rate risk, call risk, reinvestment risk, liquidity risk, and credit risk of the issuer.

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Duration, the most commonly used measure of bond risk, quantifies the effect of changes in interest rates on the price of a bond or bond portfolio. The longer the duration, the more sensitive the bond or portfolio would be to changes in interest rates. Generally, if interest rates rise, bond prices fall and vice versa. Longer-term bonds carry a longer or higher duration than shorter-term bonds; as such they, they would be affected by changing interest rates for a greater period of time if interest rates were to increase. Consequently, the price of a long-term bond would drop significantly as compared to the price of a short-term bond.

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