



# Market Commentary

Weekly perspective on current market sentiment

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**Scott Wren**

Senior Global Market Strategist

Last week's S&P 500 Index: +1.8%

## A combination of things

### Key takeaways

- As our expectations for the domestic economic trajectory have evolved, we have made several adjustments.
- We have increased our economic, earnings, and equity projections for this year as a result.

The equity and bond markets appear to be pricing in quickly falling inflation and a Federal Reserve (Fed) that cuts rates potentially six times this year, all followed by an economic recovery in the second half of the year that allows the earnings growth rate for the S&P 500 Index (SPX) to exceed 10% in 2024 relative to last year. While each of those assumptions has some chance of occurring, we think the “Street” is overly optimistic in betting that such a rosy outcome is likely. In other words, we think it is wise for investors to expect some giveback in equities and some volatility in bonds, particularly in the first half of this year, before brighter economic skies become more apparent in the second half and as we head into 2025. But as our regular readers know, in our view, pullbacks and volatility are what create portfolio opportunities. The key is to be ready when those opportunities arise.

The economy coming into this year has been supported by lower interest rates and easing liquidity and credit conditions along with a still-buoyant labor market. While we continue to believe the economy’s slowing pace will be much more noticeable in the first half of the year, we still expect a recovery later in the year. But the more gradual first-half slowing trend also implies much less first-half debt reduction and unemployment than a sharper slowdown and, therefore, less room for private borrowers to exploit easier Fed policy later in the year. So, the path and depth of recovery also has flattened, and some may call this a more drawn out “U” shaped recovery rather than the “V” shaped recovery we initially expected. Given our view that the economy is in the process of gradually slowing down, we continue to favor a more cautious portfolio approach.

As our expectations for the economic trajectory have evolved, we have recently made several adjustments, including the expected growth rate for the economy, the year-end target range for the SPX, and the yield on the 10-year Treasury note as well as the level of fed funds as 2024 comes to a close.

We now expect the U.S. economy to grow 1.3% this year, up from our previous 0.7% initial projection. As mentioned, falling interest rates, improved liquidity, and a more resilient labor market will help growth as will continued stimulus spending by the federal government. We believe our improved economic outlook should result in better earnings growth from the SPX. We now look for \$230 per share in earnings for the index versus our prior \$220 estimate. This increase in earnings suggests a modestly higher 4,800 – 5,000 target range for the SPX by year-end, an approximate 4% increase from our previous expectation.

A combination of things has led us to improve our economic, earnings, and equity outlook for this year. But we continue to believe the road in coming quarters is likely to be bumpy and uneven. Be prepared.

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