THE CAPITAL MARKETS

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New Covenant Trust Company

MARKET UPDATE AT A GLANCE

The Dow Jones Industrial Average (DJIA) finished April at 37,816, down -5.0% for the month and +0.34% so far in 2024. The S&P 500 closed April at 5,036, down -4.16% for the month and up +5.57% year-to-date. The NASDAQ Composite lost -4.41% in April, up +4.31% for the year. Small-company stocks as measured by the Russell 2000 ended April down -7.09% for the month, down -2.62% so far for the year. Real estate (-8.00%) was the worst-performing sector in April.

MARKET TURBULENCE PICKS UP AS HIGHER-FOR-LONGER NARRATIVE TAKES HOLD

The S&P 500 fell more than -4% in April as markets grappled with significant changes to expectations around interest rate cuts in 2024, following a third disappointing inflation report in a row to start the year.

These reports have shown inflations decline essentially flat lining since last fall, with markets gradually moving their rate cut expectations from as many as six starting in June, to now maybe one or two beginning much later in the year.

While inflation news has been disappointing, corporate earnings growth remained strong in the first quarter, offsetting some of the negativity in markets, and giving investors some evidence that this economic expansion can continue.

A key question for markets moving forward will be whether consumers, businesses, and the economy can continue to remain healthy in an environment with higher interest rates for longer, and how long that may be able to last before serious cracks begin to emerge.

“Hopes for rate cuts in 2024 had dimmed in recent weeks after a string of data showing inflation has proven stickier than expected. But the latest jobs report on Friday showed hiring slowed sharply last month, helping ease fears of an overheating economy.”

(Wall Street Journal, Vicki Ge Huang, May 8, 2024)

> "The gains extended Friday's rally, when a not-too-hot jobs report boosted hopes for interest-rate cuts this year. … Derivatives traders are now pricing in a roughly 90% chance that the Federal Reserve will cut benchmark rates by the end of the year, according to CME Group. Falling rates are often a tailwind for stocks, in part because they make equities look more attractive than bonds."
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> *(Wall Street Journal, Jack Pitcher, May 6, 2024)*

BAD NEWS IS GOOD NEWS AGAIN IN ECONOMIC REPORTS MARKET

The April jobs report that was released on May 3 showed a disappointing 175,000 jobs were added. This was well below expectations of 240,000, and the unemployment rate ticked up from 3.8% to 3.9%. While this would normally be viewed as bad news and a sign of a weakening economy, markets jumped over +1% for the day and around +3% over the next three days.

The reason the stock market viewed a weakening labor market with optimism is because of what it may mean for the Federal Reserve and its calculation around interest rates. A key risk for the Fed at this time is that the economy will be too strong, making it difficult for inflation to come down and signaling that their interest rate increases so far have not done enough to vanquish the persistent high inflation.

Weak economic releases, such as May's jobs report, are seen as giving the Fed evidence and data conducive to making the decision to cut interest rates sooner.

The soft-landing narrative that became consensus on Wall Street by early 2024 was always going to be a tough needle to thread — slowing down a red-hot, post-pandemic recovery that drove inflation to generational highs — without driving unemployment too high or the economy into recession was a perfect outcome the Fed has rarely been able to achieve.

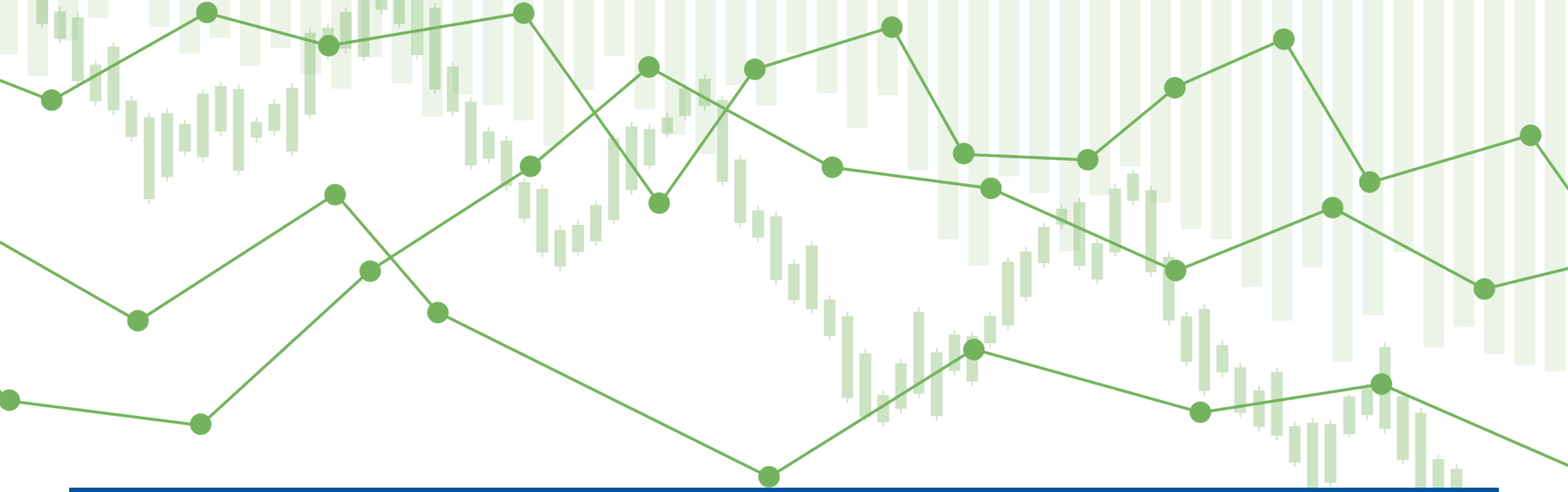
Future economic reports on jobs and GDP that are soft, but not too soft, may be viewed favorably by markets. The best report of all, however, will be consistently declining inflation numbers in the months to come.

INVESTOR TIPS FOR 2024

A lot has changed in college basketball over the last few years, and much has been made of how established programs need to adjust quickly or get left behind. But in viewing March Madness in recent years, it's still the teams that execute the fundamentals best that have gone on to be successful. Those that play team defense, rebound and shoot free throws well still find themselves at the top of the bracket when it's all said and done.

Similarly, in a pandemic market cycle where the word "unprecedented" became almost cliche, investors who stick to the fundamentals of investing are still expected to give themselves the best chance of success over time. These fundamentals include allocating assets in a way that is consistent with goals and objectives, diversifying broadly and ensuring balance in the portfolio across styles and sectors, not chasing trendy investments or funds after they've had a strong run, keeping fees low, and not panicking during short-term volatility for long-term accounts.

With an economic outlook as muddled and uncertain as we currently have, these fundamentals can provide clarity and direction for investors, regardless of which way some of these uncertain developments eventually break. We expect these fundamentals to continue to explain the majority of investor success over time, including through this cycle.



Market Metrics

Index or Metric	Close as of 3/31/2024	Close as of 4/30/2024	Change Previous Month End	2024 YTD % Change
Dow Jones Industrial Average	39,807.37	37,815.92	-1,991.45	0.34%
S&P 500	5,254.35	5,035.69	-218.66	5.57%
NASDAQ Composite	16,379.46	15,567.82	-721.64	4.31%
RUSSELL 2000	2,124.55	1,973.91	-150.64	-2.62%
Fed Funds Rate	5.25% - 5.50%	5.25% - 5.50%	UNCHANGED	
2-Year Treasury	4.59%	5.04%	+0.45%	
10-Year Treasury	4.20%	4.69%	+0.49%	
Crude Oil $ per Barrel	$83.17	$81.93	-$1.24	14.35%
Gold $ per Troy oz.	$2,238.40	$2,302.90	-$64.50	11.15%
UK Point in U.S. $	$1.2633US=1£	$1.2521US=1£	$ STRONGER	-1.78%
Euro in U.S. $	$1.08US=1	$1.0693US=1	$ STRONGER	-3.20%
Canada $ per U.S. $	$1.353256C=$1.00US	$1.37385C=$1.00US	$ STRONGER	4.19%
Japan Yen per U.S. $	151.345¥=$1.00US	157.365¥=$1.00US	$ STRONGER	11.62%

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