Michael Gibbs, Managing Director, Lead Portfolio Manager | (901) 579-4346 | michael.gibbs@raymondjames.com
Joey Madere, CFA | (901) 529-5331 | joey.madere@raymondjames.com
Richard Sewell, CFA | (901) 524-4194 | richard.sewell@raymondjames.com
Mitch Clayton, CMT, Senior Technical Analyst | (901) 579-4812 | mitch.clayton@raymondjames.com

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Weekly Market Guide

Q1 2024 is in the books with the S&P 500 up 10% year-to-date. The quarter began with the S&P 500 consolidating just under prior highs of 4800; and once the index broke out, it has been a steady glide-path higher. If you had known that inflation would surprise to the upside in both January and February, the number of expected 2024 Fed cuts would drop to 3 from 6, and bond yields would drift higher, a strong 10% market climb on virtually no volatility would probably not have been the base expectation…. **The main reason (and driving force) has been the economy.** 2023 real GDP finished at 2.5% y/y, and 2024 GDP estimates have increased to 2.2% on top of that growth (despite virtually every economist- including the Fed- believing we would be in recession).

The market is giving some benefit of the doubt to inflation, welcoming the dovish Fed stance and better economic expectations. We maintain our positive outlook on equities and see further upside in a soft-landing scenario by year-end (5145-5610 is our fundamental price objective on above-trend economic growth this year). **That said, the easy glide-path higher will need to be digested at some point.** There is plenty out there that can disrupt the market mood (and probably will over the coming months). **Overall, we believe the positives** (*economy, earnings outlook, inflation on a better path, Fed cuts coming, valuations reasonable, AI enthusiasm*) **outweigh the potential negatives** (*bullish sentiment, weak traditional leading economic indicators, potential Fed policy mistake, election, geopolitical risks*)- and would use weakness opportunistically as the risk/reward improves.

Things to watch in the short-term:

- **Economic data- this week is employment-heavy, next week is inflation-heavy.** The undersupplied labor market has supported job additions, which has supported economic growth. We expect employment to remain healthy, but cracks emerging would change the economic narrative. This week's Job Quits rate bodes well for lower employment costs ahead (a key for lower inflation). Today's ISM Services also indicated solid growth and lower prices (supporting the soft-landing narrative). Next week's CPI data will be closely watched, as the onus is on inflation coming down over the coming months- due to the market largely looking past the January and February upside surprises.
- **Bond yields-** the first three days of Q2 have seen the 10-year Treasury yield move to 4.4% (from 4.2%), which is new year-to-date highs. We recommend giving the potential breakout a ~3-day time filter to see follow-through, but rising bond yields have been a headwind to equities over the past couple of years.

Equity Market Indices	Price Return Year to Date	Price Return 12 Months
Dow Jones Industrial Avg	3.9%	17.7%
S&P 500	9.1%	26.7%
S&P 500 (Equal-Weighted)	5.8%	15.2%
NASDAQ Composite	8.2%	32.9%
Russell 2000	1.9%	14.6%
MSCI All-Cap World	6.9%	20.1%
MSCI Developed Markets	3.8%	11.0%
MSCI Emerging Markets	2.6%	6.0%
NYSE Alerian MLP	13.0%	29.5%
MSCI U.S. REIT	-4.3%	2.6%

S&P 500 Sectors	Price Return Year to Date	Sector Weighting
Communication Svcs.	17.4%	9.2%
Energy	15.1%	4.1%
Information Technology	11.6%	29.6%
Financials	10.8%	13.1%
S&P 500	***9.1%***	-
Industrials	9.1%	8.8%
Materials	7.7%	2.4%
Health Care	5.7%	12.2%
Consumer Staples	5.4%	5.9%
Utilities	3.1%	2.2%
Consumer Discretionary	2.8%	10.2%
Real Estate	-4.8%	2.1%

Source: FactSet

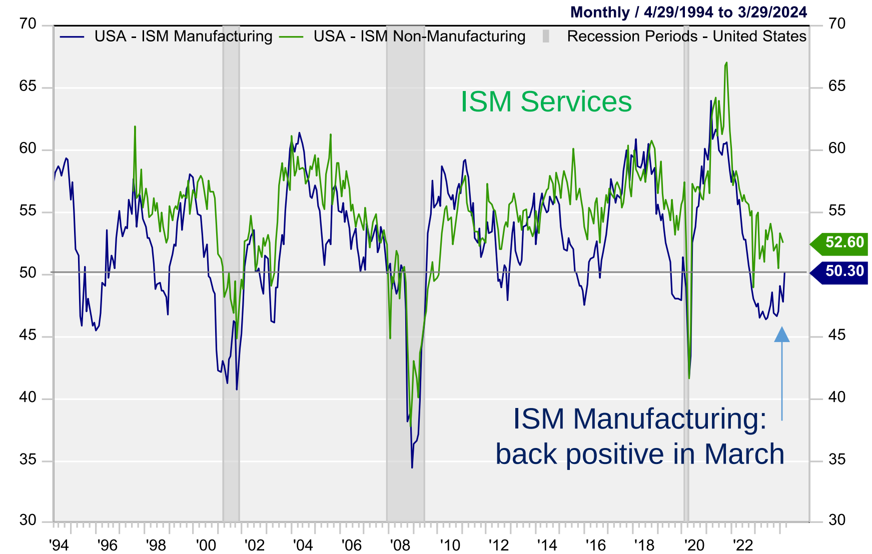
- **Q1 earnings season begins late next week-** some themes to monitor include potential changes to Tech's dominance, the consumer outlook (cautious commentary from numerous companies lately), potential revisions to 2H earnings optimism, price reactions (what's baked into various areas).
- **Technicals/momentum-** the 20-day moving average has acted as support since the October lows. This was tested yesterday at 5184 and will be the first level to watch for signs that market momentum may be slowing. Importantly, the strength of the rally leaves multiple areas of support nearby, including the 50 DMA (5070), 4800 (prior highs), 4630 (200 DMA).

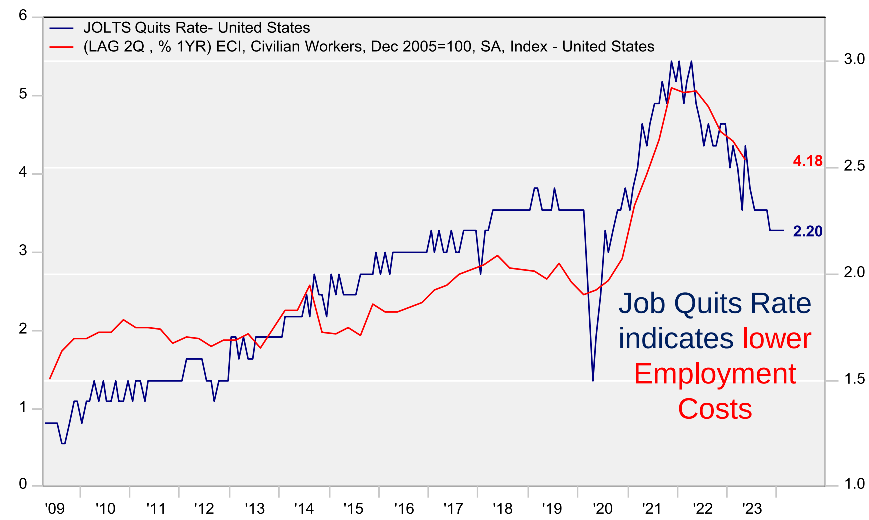
Macro: US

March ISM Manufacturing moved back into expansionary territory (albeit slightly at 50.3) for the first time since October 2022. Manufacturing New Orders also pushed higher to 51.4. The manufacturing side of the economy has been weak (while services have held up) so it is good to see improvement there. ISM Services remained positive at 51.4 and prices paid were below expectations at 53.4. Overall, the data is supportive of a soft-landing scenario. Additionally, the JOLTS Job Quits rate held at 2.2% (below pre-Covid levels) which indicates lower Employment Costs ahead. These survey readings are encouraging, but the focus will be on hard data (March employment Friday, March CPI next Wednesday).

Event	Period	Actual	Consensus	Prior
Continuing Jobless Claims SA	03/16	1,819K	1,813K	1,795K
GDP SAAR Q/Q (Final)	Q4	3.4%	3.3%	3.2%
GDP SA Y/Y (Final)	Q4	3.1%	3.1%	3.1%
Initial Claims SA	03/23	210.0K	215.0K	212.0K
Pending Home Sales M/M	FEB	1.6%	-1.0%	-4.7%
BEA Total Light Vehicle Sales (Final)	FEB	15.8M	15.4M	15.8M
Core PCE Deflator M/M	FEB	0.26%	0.30%	0.45%
Core PCE Deflator Y/Y	FEB	2.8%	2.8%	2.9%
Personal Consumption Expenditure SA M/M	FEB	0.80%	0.50%	0.16%
Personal Income SA M/M	FEB	0.30%	0.40%	1.0%
Markit PMI Manufacturing SA (Final)	MAR	51.9	52.5	52.5
Construction Spending SA M/M	FEB	-0.30%	1.0%	-0.20%
ISM Manufacturing SA	MAR	50.3	48.5	47.8
Durable Orders ex-Transportation SA M/M (Final)	FEB	0.32%	0.50%	0.50%
Durable Orders SA M/M (Final)	FEB	1.3%	1.4%	1.4%
Factory Orders SA M/M	FEB	1.4%	1.0%	-3.8%
JOLTS Job Openings	FEB	8,756K	8,773K	8,748K
BEA Total Light Vehicle Sales (Preliminary)	MAR	15.5M	16.4M	15.7M
ADP Employment Survey SA	MAR	184.0K	150.0K	155.0K
PMI Composite SA (Final)	MAR	52.1	52.2	52.2
Markit PMI Services SA (Final)	MAR	51.7	52.1	51.7
ISM Services PMI SA	MAR	51.4	52.8	52.6

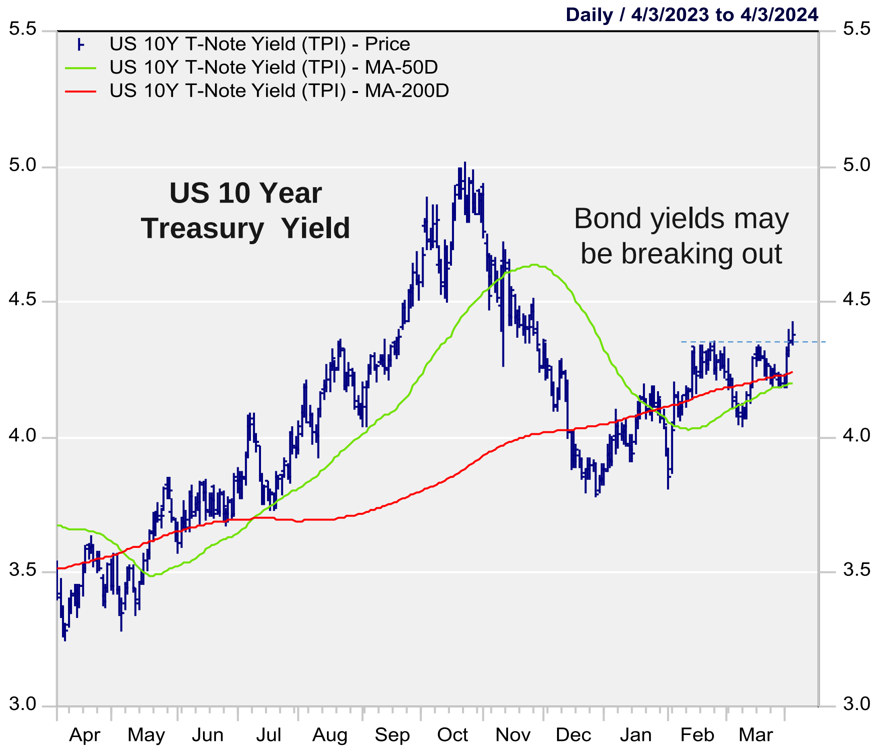
Source: FactSet





Bond Yields May Be Breaking Out

Bond yields have been a key influence to equities over the past couple of years, but the inverse correlation had decoupled since January due to investor focus shifting toward stronger economic growth expectations. In the first three days to start Q2, the 10-year yield is breaking to new year-to-date highs (up to 4.4% from 4.2% just 3 days ago). We recommend giving the potential breakout a ~3 day time filter to see if it holds (and shows follow-through). If bond yields continue to rise, it will likely become more of a headwind to equity markets.



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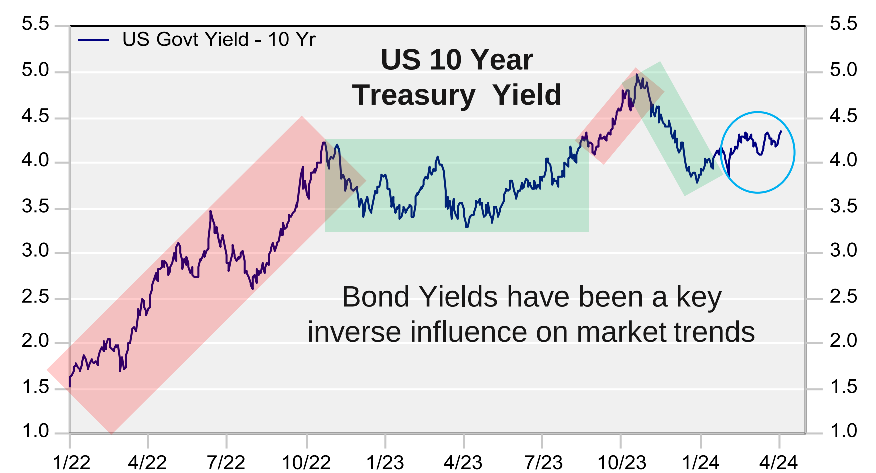
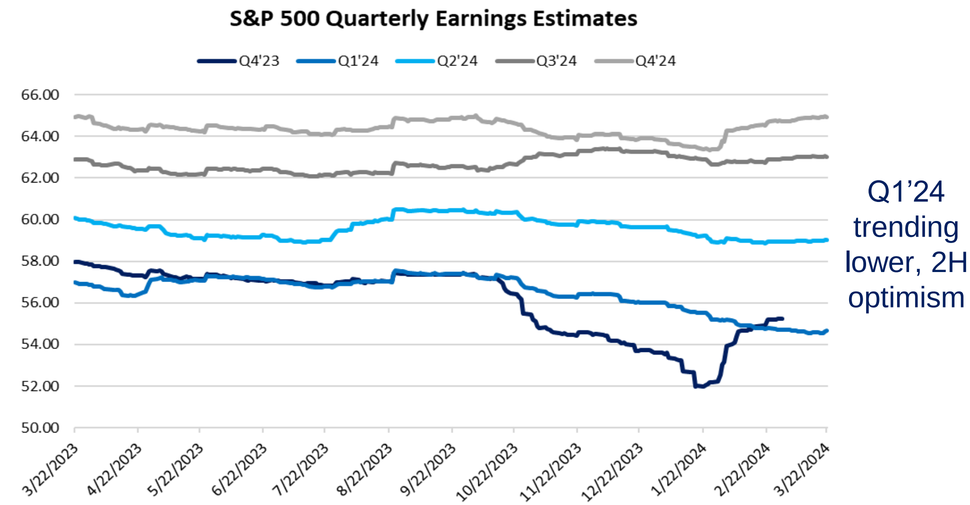


Q1 Earnings Season

Q1 earnings season kicks off next Thursday 4/11. S&P 500 earnings estimates have been revised lower over the past several months (now reflecting -1.1% q/q), and we note that the 71% negative guidance rate leading into results is worse than the norm. For example, there have been numerous consumer companies highlighting a softer Q1 outlook. Despite lower Q1 expectations, 2nd half earnings estimates have expanded lately. This is resulting in steady full-year 2024 and 2025 estimate revisions which reflect healthy 11.1% and 13.5% growth. One of the things to monitor this season will be potential changes to that optimistic growth outlook in the out-quarters, as well as potential changes to Tech's fundamental dominance, and price reactions (what's baked into the stocks across various areas).



S&P 500 Sector	% Q1 Est. EPS Growth Y/Y	Q/Q	% EPS Surprise	Est. Chg Since 12/31/23 Q1'24	2024	2025	YTD Return	2024 EPS Growth	2025 EPS Growth	2026 EPS Growth	P/E 2024	2025
S&P 500	**4.1**	**-1.1**	**12.8**	**-2.5%**	**-0.3%**	**0.4%**	**8.91**	**11.1%**	**13.5%**	**12.9%**	**21.63**	**19.06**
Communication Services	26.0	-4.9	-	2.1%	2.5%	2.9%	16.18	17.8%	13.8%	12.5%	19.82	17.41
Information Technology	20.0	-12.6	11.8	1.3%	1.8%	2.6%	11.35	17.6%	17.3%	4.9%	29.36	25.02
Health Care	-7.1	9.1	-	-6.3%	-1.6%	-1.2%	5.52	15.4%	12.7%	10.9%	19.83	17.59
Consumer Discretionary	16.3	-9.4	21.3	1.5%	1.1%	-0.3%	2.56	12.4%	15.3%	16.2%	26.92	23.34
Financials	3.2	35.1	7.7	-0.3%	0.3%	0.4%	10.79	11.5%	11.7%	13.7%	16.13	14.44
Utilities	24.0	14.8	0.3	0.3%	-0.3%	0.6%	3.19	8.7%	8.5%	6.4%	16.34	15.06
Industrials	-1.2	-16.5	7.5	-7.3%	-1.5%	-1.3%	9.48	8.1%	14.5%	15.1%	22.28	19.45
Consumer Staples	-0.5	-6.0	14.5	-4.2%	-0.8%	-1.0%	5.47	4.9%	8.3%	7.9%	20.62	19.05
Real Estate	1.9	-1.0	-	-0.4%	0.5%	0.2%	-3.68	1.5%	5.5%	6.0%	16.82	15.95
Materials	-24.0	2.4	-	-12.8%	-5.1%	-2.4%	7.45	-2.2%	15.5%	11.4%	22.10	19.13
Energy	-25.2	-14.7	-	-12.5%	-7.4%	-2.4%	14.28	-6.4%	12.0%	1.0%	13.49	12.05

Source: FactSet

Technical: S&P 500

Source: FactSet

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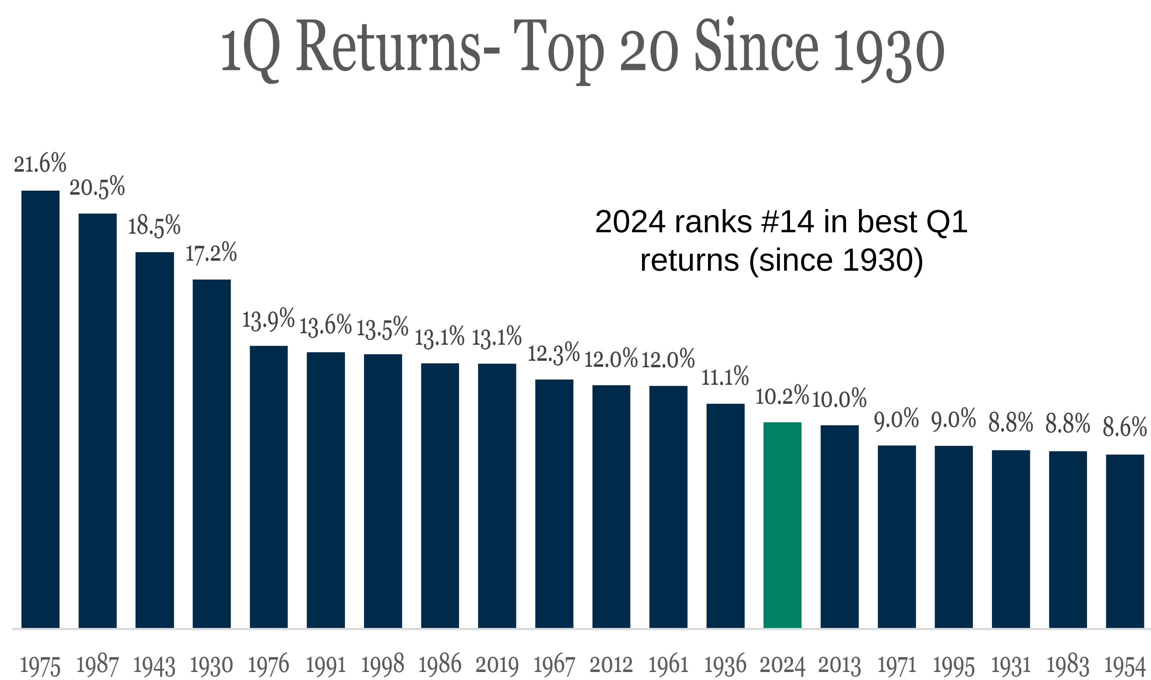
S&P 500 +10.2% in Q1 (Among Best Since 1930)

Positive Returns in January, February, and March		
Date	**Rest of Year**	**12 Months**
1930	-39.0%	-33.6%
1936	15.1%	20.1%
1943	0.8%	3.8%
1950	18.2%	24.2%
1954	33.6%	35.8%
1961	10.0%	6.9%
1964	7.3%	9.1%
1967	7.0%	0.0%
1971	1.6%	6.9%
1972	10.1%	4.0%
1975	8.2%	23.3%
1983	7.8%	4.1%
1986	1.4%	22.1%
1987	-15.3%	-11.2%
1991	11.2%	7.6%
1993	3.3%	-1.3%
1995	23.0%	28.9%
1996	14.8%	17.3%
1998	11.6%	16.8%
2006	9.5%	9.7%
2012	1.3%	11.4%
2013	17.8%	19.3%
2019	14.0%	-8.8%
2024	?	?
Average	7.5%	9.4%
% Positive	91%	78%

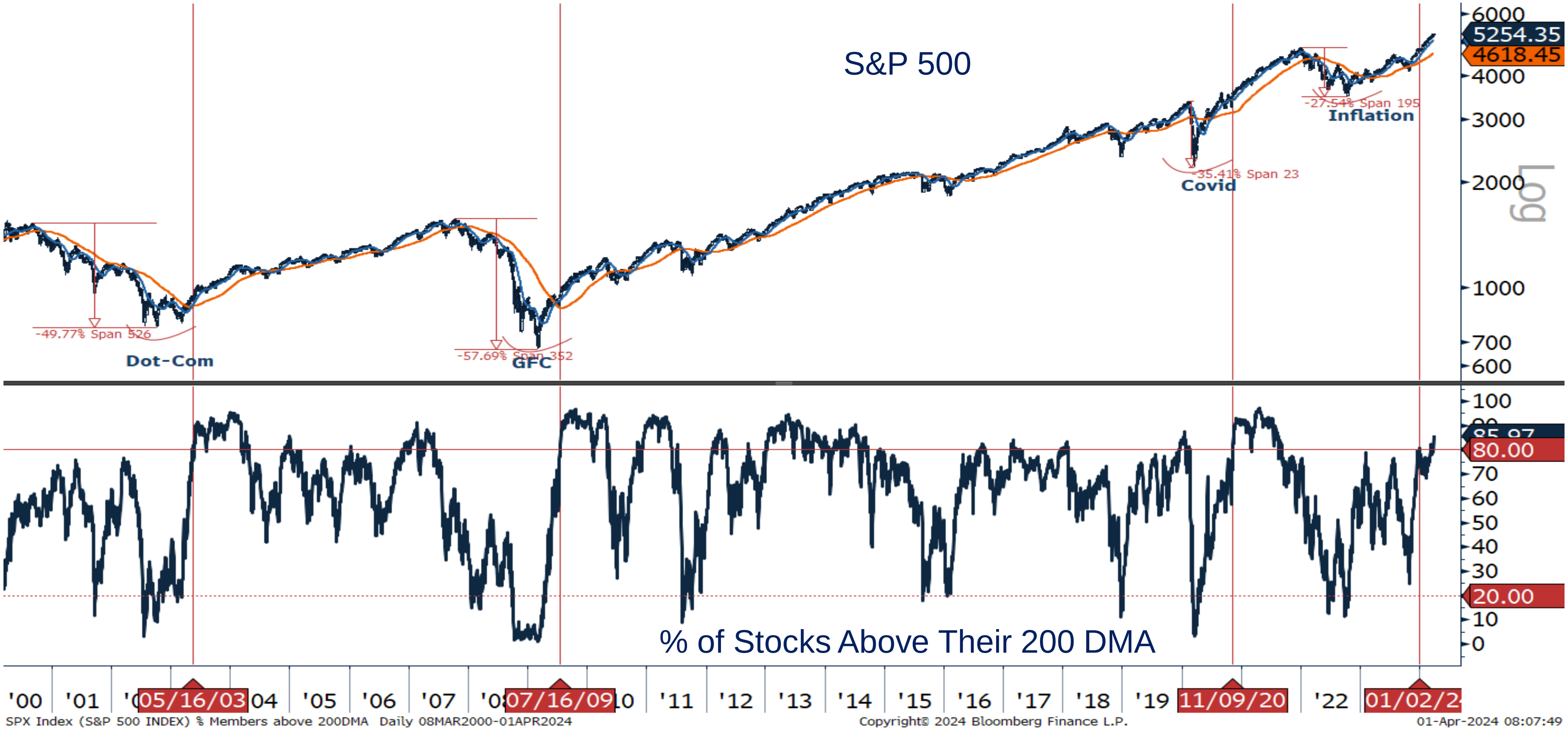
Source: Bloomberg

The S&P 500's 10.2% gain in Q1 was the 14th best start to a year since 1930. The index also exhibited positive returns in January, February, and March- which has only happened 23 times since 1930. What we attempted to look at on this page is what has happened over the rest of the year following similarly strong performance. Historically, when the S&P 500 is positive in January, February, and March, returns have been positive 91% over the rest of the year with an average return of 7.5%. *Applying that average would put the S&P 500 at 5650 by year-end.* Those rest-of-year gains are also above normal returns for all occurrences, which reflects 6.5% returns and up 70% of the time. The bottom line is strength often begets strength, supporting our positive stance on equities over the next year.



Market Broadening Out

There are numerous intermediate-term technical indicators that bode well for overall performance trends- one of which is expanded participation. The percentage of stocks above their 200-day moving average is now up to 86%. After coming off a substantial period of weakness, when the percentage of members above the 200DMA exceeds 80% it is generally a sign of continued growth rather than one of exhaustion. It is worth noting the most recent period of weakness caused by inflation concerns was not as severe as the other periods, as we saw -50%, -58%, and -35% drawdowns in the dot-com bubble, global financial crisis, and Covid periods, and strong participation coming off tremendously weak periods more easily achieved as the bar is set rather low. Nonetheless, it is still a sign of broad participation, which is a bullish backdrop for continued gains in the coming months / quarters.



Source: Bloomberg

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Index Definitions

The **S&P 500** is an unmanaged index of 500 widely held stocks that is generally considered representative of the U.S. stock market.

The **Dow Jones Industrial Average (DJIA)** is a price-weighted average of 30 significant stocks traded on the New York Stock Exchange (NYSE) and the NASDAQ.

The **NASDAQ Composite** is a stock market index of the common stocks and similar securities listed on the NASDAQ stock market.

The **MSCI World All Cap Index** captures large, mid, small and micro-cap representation across 23 Developed Markets (DM) countries. With 11,732 constituents, the index is comprehensive, covering approximately 99% of the free float-adjusted market capitalization in each country.

The **MSCI EAFE (Europe, Australasia, and Far East)** is a free float-adjusted market capitalization index that is designed to measure developed market equity performance, excluding the United States & Canada. The EAFE consists of the country indices of 21 developed nations.

The **MSCI Emerging Markets Index** is designed to measure equity market performance in 23 emerging market countries. The index's three largest industries are materials, energy, and banks.

The **Russell 2000** index is an index measuring the performance of approximately 2,000 smallest-cap American companies in the Russell 3000 Index, which is made up of 3,000 of the largest U.S. stocks.

The **NYSE Alerian MLP** is the leading gauge of energy infrastructure Master Limited Partnerships (MLPs). The capped, float-adjusted, capitalization-weighted index, whose constituents earn the majority of their cash flow from midstream activities involving energy commodities, is disseminated real-time on a price-return basis (AMZ) and on a total-return basis (AMZX).

The **Barclays Intermediate Government/Credit Bond** index measures the performance of U.S. Dollar denominated U.S. Treasuries, government-related and investment grade U.S. corporate securities that have a remaining maturity of greater than one year and less than ten years.

The **Euro Stoxx 50 Index** is a market capitalization weighted stock index of 50 large, blue-chip European companies operating within Eurozone nations. Components are selected from the Euro STOXX Index which includes large-, mid- and small-cap stocks in the Eurozone.

The **China CSI 300** is a capitalization-weighted stock market index designed to replicate the performance of top 300 stocks traded in the Shanghai and Shenzhen stock exchanges. It had a sub-indexes CSI 100 Index and CSI 200 Index.

The **S&P 500 Futures** is a capitalization-weighted index of 500 stocks. The index is designed to measure performance of the broad domestic economy through changes in the aggregate market value of 500 stocks representing all major industries.

The **DJIA Futures** is a stock market index futures contract traded on the Chicago Mercantile Exchange`s Globex electronic trading platform. Dow Futures is based off the Dow 30 stock index.

The **Nasdaq 100 Futures** is a modified capitalization-weighted index of the 100 largest and most active non-financial domestic and international companies listed on the NASDAQ.

Europe: DAX (Deutscher Aktienindex (German stock index)) is a blue chip stock market index consisting of the 30 major German companies trading on the Frankfurt Stock Exchange.

Asia: Nikkei is short for Japan's Nikkei 225 Stock Average, the leading and most-respected index of Japanese stocks. It is a price-weighted index composed of Japan's top 225 blue-chip companies traded on the Tokyo Stock Exchange.

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